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WELCOME AND INTRODUCTION

CHAIRMAN KEISER: Thank you Susan. Well good morning everyone. Welcome to day three of our meeting. My goal is to get the meeting through by 12 o'clock because we are going to have a lot of people leaving on their flights. If I may welcome everybody and at this time invite our members to introduce themselves since that side of the table seems so sparse we'll ask Simon to start.

MR. BOEHME: My name is Simon Boehme and I'm the student member.

MS. ALIOTO: My name is Kathleen Sullivan Alioto and I'm an advocate and starter of a start-up involving teaching parents and grandparents teaching their children to read 0 to 5.

MR. ETCHEMENDY: I'm John Etchemendy from Stanford.

MR. PRESSNELL: Claude Pressnell the President of the Tennessee Independent Colleges and Universities.

MR. WOLFF: Ralph Wolff, President at the Quality Assurance Commons.

MS. PHILLIPS: Susan Phillips, Faculty University at Albany and Leadership Fellow SAIL Institute State University of New York and Albany.

MS. DERLIN: I'm Bobbie Derlin, I'm the Associate Provost Emertis from New Mexico State University.

MR. WU: Frank Wu, Faculty, University of California.

MR. KEISER: Art Keiser, Chancellor at Keiser University.

MS. HONG: Jennifer Hong, NACIQI Executive Director and Designated Federal Official.

MR. BOUNDS: Herman Bounds, Director of the Accreditation Group at the Department of Education.

MS. MANGOLD: Donna Mangold, Department of Education, OGC.

MR. FRENCH: George French, President, Miles College.

MS. NEAL: Anne Neal, Senior Fellow American Council of Trustees and Alumni.

MR. VAN AUSDLE: Steve Van Ausdle, President Emeritus Walla Walla Community College.

MR. JONES: Brian Jones, President of Strayer University.

MS. DAGGETT: Elizabeth Daggett, Department staff.

MS. MCKISSIC: Stephanie McKissic, Department staff.

MS. HARRIS: Doctor Nicole S. Harris, Department staff.

CHAIRMAN KEISER: Well thank you everyone. Today we have two topics we're going to be discussing. The first will be the Oversight of For-Profit Institutions Conversion to Non-Profit Entities and the second will be a discussion by our Sub-Committee on Data led by Bobbie Derlin.

Now I'd like to introduce Jennifer Hong.

OVERSIGHT OF FOR-PROFIT INSTITUTIONS CONVERSATION TO NON-PROFIT ENTITIES

MS. HONG: Good morning everyone. On the agenda item for the Oversight of for-profit Institutions Conversion to Non-Profit Entities. The reason why this is on the Agenda if members look in their folders we received an initial letter from Senators Warren, Brown, Murray, Derbin, Bloomenthal on -- dated January 11th, 2018 and this was right before the last February NACIQI meeting.

So in brief they wanted NACIQI to raise as an issue and to include on its Agenda the oversight of accrediting agencies approval of the conversions of for-profit entities to non-profits. And because we got this late in the process for February we broached it at the February meeting. Those of you may recall we did receive the letter and we acknowledged it.

Consequently the same senators wrote the same letter on February 15th which was timely enough for this meeting and after conference with the Chair we decided to include it as an Agenda item.

Some of the suggestions and I'll just read them beginning on page 3 for the record that they suggest that the Senators suggest to one -- insure that conversion of approval processes are significant factors in NACIQI'S qualitative reviews of accrediting agencies.

Two -- conduct briefings or forums on the dangers of non for-profit conversions and three -- advise the Secretary on setting specific standards that accrediting agencies must apply when approving conversions in order to be recognized.

So we're opening up this issue for NACIQI to discuss. We've received several oral comments that we'll hear this morning. Just to kind of frame the discussion we've put up here the relevant sections relative to the accrediting agencies under 602.22A2 Roman at 2I and I don't know that you can see it but this is under substantive change provisions.

So currently under the current regulations accrediting agencies are required to approve changes of ownership and changes of control and the standard is that the approvals must take place to ensure that an institution -- the change doesn’t adversely affect the institution’s capacity to continue to meet the Agency standards.

That is what we require agencies to do right now. So for changes of control, changes of ownership, anything that encompasses these conversions, the standard is that -- again, accrediting agencies must insure that it doesn’t adversely affect an institution’s capacity to continue to meet the accrediting agency standards.

That’s what we have currently and that’s how the staff and this Committee has been, you know, looking at substantive changes that encompass changes of control and ownership up to this point.   So without further ado, I’m going to hand it over to the Chair.

CHAIRMAN KEISER: Thank you, a couple of things that I want to do before I give the little presentation would be to tell everybody that we have a timer here and the timer will be for 3 minutes -- 3 minutes are our normal process. At the end of 2 minutes a yellow light will come on and at the end of 3 minutes the red light will come on.

I will then politely ask you to wrap up your comments within a sentence or two, then I will ask you a second time if you continue to go on and the third time they've given me the power of this button here which then shuts off the mic. Hopefully that will get your attention.

So please be advised that everything that is said is recorded and transcribed, we are transcribing this yes, okay. So I just wanted to make sure that you understand that the process today we have 23 speakers today so 23 speakers is a lot of people and so we're going to try to get through this as appropriately and rapid as possible.

So again good morning and welcome everyone. I want to take the moment to set the proper tone for the discussion today, one that I hope will create a spirit of goodwill and foster a robust but respectful debate regarding issues or actions that impact higher education in America and this Committee's role in that.

I received a letter in January asking the Committee to address the topic of concern to some senators and that is some for-profit private colleges exploring the options to convert to non-profit operations.

Without hesitation I agreed to put this matter on the Agenda for comments and open discussion. It is our role to advise the Secretary of Education and provide recommendations regarding accrediting agencies that monitor the quality of higher education institutions.

Today we will hear commenters discuss virtually every aspect of this issue and passionately express their beliefs about what is in the best interest of higher education and their constituents.

And as Chairman I welcome the opportunity to advance policies or actions by public or private schools that will enhance the quality of education for all college students.

After agreeing to put this topic on the Agenda I received another letter from the same U.S. Senators pointing to Keiser University, my university, which I'm Chancellor of -- which became non-profit nearly 8 years ago.

They cited Keiser University as an example of their concerns and requested that I recuse myself from this dialogue. I have consulted with the NACIQI counsel and determined that my recusal is unnecessary. We're simply listening and responding to questions and opinions of the issue of for-profit conversion to non-profit status.

I strongly believe my 40 years of experience and knowledge in private higher education and career oriented institutions can provide valuable insight, history and context that should not be excluded from the discussion, especially when the media is reporting on it to the public and they need to hear all sides of this important argument.

So now I'd like to introduce our first speaker. The first speaker is former Congressman Steve Henderson. Welcome, please introduce yourself and make your remarks.

MR. GUNDERSON: Mr. Chairman the good news is your timer is so small I won't be able to see when I've expired my 3 minutes so you may have to use a more verbal one. Members of the Committee, I'm Steve Gunderson, President and CEO of the Career Education Colleges and Universities.

First all me to express my appreciation to you especially you, Chairman Keiser, for even adding this topic to your Agenda. To be honest nowhere in Section 106 of the HEA re-authorization do I see language directing you or the Secretary to make recommendations regarding corporate structure of an institution of higher education.

But there is a much more important point than legal authority. The reality is that the letter requesting this discussion reflects a serious misunderstanding of the dramatic changes occurring today within higher education.

At best, this is yesterday's issue. The lines between public, private non-profit, or proprietary are yesterday's boundaries. Every institution is engaged in some mixture or combination of public, private and non-profit operations. Is there anyone who suggests public institutions don't require academic departments to be profitable?

Look at the current debate at the University of Wisconsin, Steve's point and my home state regarding the cancellation of entire academic departments because they are not profitable.

The biggest difference between my sector and the rest of higher education is who we serve and what we teach. Our students remain primarily adult students seeking postsecondary career education. Over the past 40 years proprietary institutions faced two challenges -- they can't receive any kind of operating subsidy even to serve low-income students.

Contrast this with state operating support for public colleges exceeding 86 billion dollars last year. Second -- proprietary schools can't receive donations from individuals or foundations. Contrast this with over 43 billion dollars in philanthropic donations last year to all other colleges.

Career education colleges and universities serve schools engaged in the common mission -- postsecondary career education. Our membership includes private, non-profit, proprietary and yes, conversion schools.

We have recently created a coalition of non-profit career education colleges and universities. I recognize some people just oppose our very existence -- that is their right. Let's put this in perspective -- if you count all the conversions in recent years you would not come close to 25 such conversions. This is less than 1% of all proprietary schools using Title IV.

Such numbers make clear this discussion reflects a conversation in search of a problem that simply doesn't exist. By 2025 we need 46.5 million new workers in America. Today 65% of all jobs and 85% of all new jobs require some level of postsecondary education.

We should be encouraging every school to do all they can to help in this important mission and we should judge every school by its outcomes, not by its current or former corporate status.

Thank you for this opportunity to share these thoughts. I close with a standing invitation to every member of this Committee, we invite you to visit our schools, you will be touched by the passion by which these instructors prepare students for success in their chosen careers. Thank you.

CHAIRMAN KEISER: Thank you, our next presenter is Erin oh -- any questions from the Committee -- oh Frank?

MR. WU: So I have a question unrelated to the issue of whether this is properly before NACIQI through this letter from the people who wrote to us, members of Congress. The question as a policy matter how should the Department of Education address these conversions?

So if you were to advance some type of affirmative proposal, what would be the appropriate way for the Department of Education to regard these if to do anything at all. It may be that your views may not be of concern at all.

MR. GUNDERSON: Thank you for the question. As I indicated in my testimony we are moving into an area where we are going to see outcome metrics and requirements and transparency for every school of every type and every program within those schools.

If I were at the Department of Education and I were looking at public policy I would want to make sure that there was no change in outcomes resulting from a chance in corporate structure any more than there is a change in our attempts by changing accreditors or changing programs, et cetera. I think that's what the Department has to do. They have to focus on the outcomes.

MR. WU: Just a follow-up question. I want to make sure I hear you correctly. So from your perspective, let's take a rule on say gainful employment -- if it applied across the board irrespective of the type of institution -- for-profit, non-profit, converted, et cetera, that wouldn't be problematic as long as it were applied evenly?

MR. GUNDERSON: Exactly. We have said one set of rules for all schools. We are happy to abide by the same requirements as everybody else. We don't necessarily like to be targeted.

MR. WU: Thank you.

CHAIRMAN KEISER: Simon?

MR. BOEHME: Thank you so much for your presentation and coming today. You said something that stuck out to me that every single school should -- I'm paraphrasing, outcomes are important.

MR. GUNDERSON: Absolutely.

MR. BOEHME: Okay. It was suggested or and I don't know if you come to NACIQI often but we have a pilot program where we ask accreditors to discuss what kind of data they collect to discuss student outcomes.

And through media reports or through some conversations, that pilot program may be endangered. Would you recommend to the U.S. Department of Education -- would you encourage us to continue to ensure that accreditors are held accountable for student outcomes and that we continue to question all programs and all institutions to continue to stay focused on student outcomes?

MR. GUNDERSON: Absolutely. It may surprise you but number one I think that the role of accreditation is academic quality and so that ought to be the focus and we ought to be looking at academic outcomes in particular and we ought to be also looking at how we can achieve consistency in the definition of those academic outcomes.

I mean one of the -- if we've learned one lesson with the whole ACICS experience and with schools trying to find new accreditation is that in all due respect, every accreditor has a different definition of what career placement is, of what, you know, all these standards are.

And you could meet it for one accreditor and not meet that same standard with a different accreditor and I think we have to have consistent definitions. I've tried to encourage the Congress to do this because I am not sure in all due respect to my friends in the accrediting business that they're going to sit down and come up with those definitions, but it's fairness to the students, it's fairness to the instructors and staff, it's fairness to the schools, it's fairness to the policy makers.

MR. BOEHM: Thank you.

CHAIRMAN KEISER: Thank you very much Steve, oh, Kathleen?

MS. ALIOTO: Just as a point of reference the accreditors -- it's the institutions that are supposed to come up with the standards and the accreditors make that judgment about whether or not they are meeting their own standards.

MR. GUNDERSON: Well I think in today's world where we want to provide current and potential students with the most knowledge possible so that they can make the right decision for themselves I think that there has to be a role above that of any individual school creating its own standards.

I think we need to have some common standards on what we mean by retention, what we mean by graduation, what we mean by placement and right on down the line.

MS. ALIOTO: Alright well I'm not going to quibble with you about that but my basic question is this is about money so if you have a non-profit you said that it's better to be a non-profit because you can receive -- what would --

MR. GUNDERSON: Philanthropic money.

MS. ALIOTO: You can receive the donations and what else can you receive?

MR. GUNDERSON: Well I said you can receive donations to scholarships, research, otherwise and I tried to point out that the difference between public operating subsidies which no proprietary school does receive and may or may not should receive.

I believe we as a nation have got to look seriously at this question of how are we going to provide opportunity for those most in financial need of access? And I think that's not a debate about whether it's a public or a private non-profit or a proprietary school. That is a debate about what we as a nation are going to do in providing those students most in need of assistance for access -- that access.

I mean I'm going to share with you an issue that we deal with a lot which is what's the right/wrong answer on 90-10?

And the way I place this is assume there are 100 students in our school and we -- 90 of them are on federal financial aid.

MS. ALIOTO: Which is true now.

MR. GUNDERSON: Yeah.

MS. ALIOTO: So whether it's public or private.

MR. GUNDERSON: That's right.

MS. ALIOTO: That money is going from federal dollars to schools.

MR. GUNDERSON: But no, financial aid goes to the student and the student chooses which school to use it at. This is not institutional aid, this is student aid -- very important difference. And the problem with something like 90-10 is the school literally has to say which one of these low-income students should I enroll and which ones should I not enroll because if I enroll that student I exceed the 90-10.

And it's the same issue if you're going to move the GI monies into the 90-10 debate then you say do I enroll that veteran or do I enroll that low-income student? A school should be able to enroll any students who want to go there to pursue their academic learning in their career education.

MS. ALIOTO: Could you get back to my original question -- how does the money go? If it goes from for-profit to non-profit then there's no tax, correct?

MR. GUNDERSON: Well you're absolutely right. A non-profit doesn't pay taxes.

MS. ALIOTO: Right.

MR. GUNDERSON: But we don't give much credit for paying taxes either.

MS. ALIOTO: So what -- how will the non-profit in your dream world, where would the non-profit -- where would that non-profit money go, that wouldn't be going for taxes?

MR. GUNDERSON: Well most of the schools that have converted have had some type of fund that they have moved it into a philanthropic vehicle -- some type of distribution. Once they make that conversion no different than the hospitals when they have converted -- they made that same kind of a philanthropic use of those funds, those assets once they make that particular conversion.

MS. ALIOTO: Okay so then my final question is when we have looked at the score card and other data approaches to education it doesn't appear -- I mean there are some private schools, some public schools that are doing a great job with low-income people and there are others that are doing a miserable job and I'm not sure that in terms of your transfer from a for-profit to non-profit that those particular students are actually being met -- I think that's the rub and what happens to students.

MR. GUNDERSON: As I said earlier you, the Department, the Congress, everybody ought to judge that school on its outcomes and I would say service to a certain percent of low income students as a part of its enrollment ought to be one of those outcomes and that ought to be consistent whether they are proprietary school, they are a non-profit school or they are a public school.

We ought to -- and I strongly support moving towards additional PELL incentives for schools that serve a large number of PELL students. I mean we have to figure out how we're going to provide the access or we're never going to give this opportunity for people to move up in American society.

MS. ALIOTO: Thank you.

MR. KEISER: Brian then John.

MR. JONES: Good morning.

MR. GUNDERSON: Good morning.

MR. JONES: It seems to me that much of this was down to questions of governance and you know, I think of a analogue -- not perfect analogue but I for example, I chaired the authorizing board in DC for the city's Toter School, Toda is of course a non-profit entity. Many of them though have relationships with for-profit entities, management companies and the like.

And the challenge from an oversight perspective often had to do with the transparency of the governance. And it does seem to me that in the case of many of these conversions that part of the challenge is moving where the governance accountability lies to Kathleen's point about the flow of dollars and things like that -- the ultimate check is sound governance.

So I'm curious where do you see the right oversight role for evaluating the quality of the governance structures in these conversions? Is that a Department responsibility? Is it an accreditor responsibility? Is there a role for associations like yours that establish best governance practices?

How do we sort out this question making sure that there is appropriate governance?

MR. GUNDERSON: That is a question we could spend all day on. I tend to think that the accreditors do have a role in governance. I mean, because as I look at the triad I have always understood state licensing refers to consumer protection. The Department's role is to look at the fiduciary responsibilities as they relate to access to Title 4 and so the third leg of that triad is the role of the accreditors.

And I think it is the role of every accreditor to look at every institution in terms of appropriate governance within its organization or institution.

CHAIRMAN KEISER: Before John, Jennifer has something to say.

MS. HONG: Real quickly -- thank you for asking the question Brian, it just reminded me. What we have the board is with regard to the oversight of the accrediting agencies approve all of these changes.

Separately the Department currently has its own approval process of these conversions and we do have folks in the room that can speak to that process later on when we have the discussion but our Office of Federal Student Aid does approve these conversions separately.

MR. GUNDERSON: Yeah I was referring to Section 106 of the Reauthorization of 2008 which talked about the functions of NACIQI, I was not talking about the section you have on the slide.

CHAIRMAN KEISER: John?

MR. ETCHEMENDY: Yeah, let me just start by saying that I think that your comment that the funds and the student aid funds do not go to the institutions -- it's simply disingenuous. I mean we know that yes, it is the student has to qualify but often it's the institution itself that applies for the money, makes sure that the student gets the money. The student in many cases doesn't even know that they're eligible for the money.

I agree with you however, that the 90-10 Rule -- I mean I take it that you don't like the 90-10 Rule. I agree with you that it should apply to every institution regardless of structure. I actually think it should be an 80-10 Rule and the VA funds should be included along with the other funds in the 80% limit.

When you say that well, you know, part of the mission of many of these universities should be to serve low income students and I think that's right -- you said serve some number of low income students, I think that's right.

90% of your students is quite a number of low income students that you can serve. I think the fact that by getting rid of the 90-10 Rule or for that matter having a 90-10 Rule that excludes veteran's assistance is simply a way of taking away any market mechanism to test the value of the university.

Now I'm a great believer in the free market and I think that we should have market mechanisms and the fact that people are willing to pay their own money is some test of that.

Now the 90-10 Rule only makes it 10% or less have to actually pay their own money but I think it's a very valuable rule and should be strengthened.

MR. GUNDERSON: So here's a compromise because I don't -- you and I have different positions but here's a compromise. Why don't we require that every school in America has to have 50% of their students PELL eligible -- just start with that and see what that does because then we will get some response in terms of providing access to low-income students.

The reality is and this is a much bigger social conversation -- hopefully not a debate about when you are looking at those who pursue a career -- mid-level skilled career, rather than a liberal arts education, you are dealing rightly or wrongly with those who tend to be first generation college students, come from low income families, have never felt that they had the background and the preparation where they could succeed at what you and I would call a high quality liberal arts school.

And so we are dealing with a very different constituency and I have always believed that all the debates we have about different structures of colleges and universities should never override our conversations about universal access regardless of economic status.

CHAIRMAN KEISER: Claude?

MR. ETCHEMENDY: I don't disagree with any of that. I mean I think it's an incredibly important mission and these students should be served and the students should be protected and that's what we're concerned about is are the students in fact protected?

And I believe that the 90-10 Rule among other things is partly there to help protect the students by inserting a market test into the institution.

MR. GUNDERSON: One of the things I hope you all remember and this is to all of my colleagues who are in higher education associations -- I have consistently said there were schools in my sector who did a bad job.

I think most of those schools in my sector that did bad jobs are also history. You can't look at the 2010 data and try to make policy decisions in 2018. Over 2000 of our campuses have closed in the last 8 years. We are a very different sector today. We sort of have gone back to our roots, we are focused on postsecondary career education, not online liberal arts education part-time, two adults, single family with a job.

I mean that's a business model destined for outcome problems but that's not who we are today and I plead you look at who we are today, not what we were.

CHAIRMAN KEISER: Claude, again we're going to have a conversation at the end. And I don't want to cut-off anybody but you know if you want to make your points we can make them all at the end but that's up to you. Claude I don't mean to cut you off.

MR. PRESSNELL: You're trying to cut me off.

CHAIRMAN KEISER: I just -- I just have the problem of being the Chair and trying to keep things moving along.

MR. PRESSNELL: I was actually a little surprised that we were taking questions anyway at this point in time.

CHAIRMAN KEISER: Well we always have.

MR. PRESSNELL: Okay well this is good. So well and first of all you know, to your last comment that you just made about who you are today versus who you were then -- self-regulation wasn't working too well then and so you are where you are today because of a lot of pressure that was put on your sector and so you have to recognize that.

Let me ask you -- I mean the point of this is for-profit and non-profit conversions and whether or not that's in the best interest of higher education, best interest in the students, you know, who are being served.

There is an appearance and I think the reason that this discussion is being had and there’s an appearance that we see in the media that the conversion from for-profit into non-profit is to avoid a lot of regulatory hurdles that parged out your sector before.

We have got an inordinate amount of third-party comment in writing, the vast majority of those were citing hundreds of thousands to millions of dollars of settlements against fraudulent behavior against those very low-income students and veterans that you’re talking about.

I think it’s in the best interest of the U.S. -- of the United States that that not occur. So here’s my question to you is how do we make sure that doesn’t happen because I think based on your final comment just a moment ago, you said you’re not who you once were, you’re a whole different sector and you seem to be pleased with who you are today so how can we make sure that we can maintain the integrity of the system regardless of for-profit, non-profit.

The conversion conversation is all around this suspicion that there’s a movement in order to avoid regulatory.

MR. GUNDERSON: It’s a great question and that's why I thanked you for having the conversation whether or not there's jurisdiction in this area. The reality is if schools were converting simply to avoid regulation, after the 2016 election they would have stopped.

They saw a new administration coming in, they had a very different perspective on regulations and they just said I'm going to quit paying all these lawyer fees and all these other costs and I'm just going to stop doing it. So I don't think that's what we're dealing with here is schools trying to avoid regulations anymore.

I think to be honest with you -- and this is speaking from real life experience with some of these schools. The incessant opposition to our sector's very existence by some people has convinced these families that own these schools -- especially the next generation, that they want no part of it. They're not going to go into it and I could name schools for you which I won't do because I think it puts them in a non-fair position of attack by our opponents.

But I know schools where the younger generation has refused to join or enter that school operation and for that school to survive and continue, their only option is to convert to a non-profit status.

CHAIRMAN KEISER: Thank you Steve. The next person to speak is Aaron Shenck, Executive Director of the PAPSA.

MR. SHENCK: Well good morning, my name is Aaron Shenck. I'm the Executive Director of PAPSA. We're a non-profit bipartisan state association in Pennsylvania that represents technical colleges and postsecondary trade schools. Our membership includes schools that educate in a huge diversity of career fields.

From my testimony today I think it's relevant to state our membership of PAPSA is made up of institutions that are both non-profit and for-profit for tax purposes and we also have a small number of members who are actually considered public.

For full transparency I want to disclose that one of our member institutions completed a for-profit non-profit conversion about a year ago, however in my knowledge I'm not aware of any of our other members that are currently considering this process.

I state that because I want to be clear that I'm here today speaking with my own thoughts. I'm not here on behalf of any single institution or interest. The reason why I did come today is I am a strong advocate for several issues directly related to this conversation.

One -- I want to make sure that regulators and policymakers focus on student outcomes that are decision-making. Two -- tax status of institutions do not determine outcomes. Three -- higher ed policy should be equitable and reasonable across sectors regardless of tax status.

Four -- federal policy should not stifle innovation but should support it and five -- there should be respect jurisdiction's rule of law processes and bias and political objection should not supersede that. All these sub-issues are tied in the conversation today around conversions.

Let me start by saying tax status I said does not determine student outcomes. There are countless examples of positive success stories from all sectors of higher Ed including public, non-profit and for-profit. I have myself personally visited over 100 campuses of all those different sectors and I've seen many different success stories regardless of tax status.

Just as one small example to highlight -- Forbes Magazine did a comprehensive national study on postsecondary technical trade schools that they published in June of 2017 and named the top 30 trade schools in the country by their calculation, their methodology.

I'm proud to say five of those are Pennsylvania institutions and our members. And I say this not to boast about our members but to highlight something relevant to this conversation today. Out of those 5 schools, 2 of them are for-profit institutions, 1 was non-profit, 1 was affiliated with a public institution and the 5th was a historically for-profit institution that was being acquired by a non-profit at the time.

This one small subset of schools I think helps paint the broader issue of how I believe that tax status should not be a determinant when we deal with outcomes. Now that I've made these general statements let me dive deeper into the topic directly in front of us today of conversions.

First, it's important to note there are many different ways an institution can be organized for tax purposes. For-profits can be individually owned, partnerships, small corporations, large corporations and there are some that are ESOP'S which are owned by employees.

Public institutions may be state owned, community colleges, land grants, then there's non-profits and there's a small number of schools what are called public benefit corporations. There are also many partnerships and arrangements where institutions from different tax structures partner with one another on different programs and agreements.

The Purdue University Kaplan Agreement is probably the most notable and most recent and largest that most people are aware of, but there are many, many much smaller arrangements that are put together between different tax status, they're a benefit of the students.

CHAIRMAN KEISER: Try to wrap it up.

MR. SHENCK: Yep, let me go right to my closing comments then on processes.

CHAIRMAN KEISER: Thank you.

MR. SCHENCK: Two minutes from this point. My final points are more around process suggestions. I would say to do whatever process there is in place we need to respect it. We know the IRS, in reality, is the proper agency to make determinations of tax status.

CHAIRMAN KEISER: One sentence, try to wrap up.

MR. SCHENCK: I'll tell you what I will just close again saying again focus on student outcomes, tax status is not a precursor to good or bad outcomes, federal policy should be equitable, should support innovation and respect jurisdictions. Thank you.

CHAIRMAN KEISER: Thank you, Frank?

MR. WU: Just one question. You referred to tax status. I just have a question about what the difference is between for-profits and non-profits, in your view. Is it only the tax status or because for-profits answer to shareholders and to others might there be differences, incentives and behavior?

So is there anything meaningful about the difference or should we just -- and accreditors, just treat them as all identical other than tax status?

MR. SCHENCK: I would answer that two ways. When it comes to outcomes I don't think there should be a difference. In my view it's not so much the inputs but in terms of whether it's tax status, structure, the incentives to create the outcome, in my view it's what outcomes at the end is what's most important.

But there certainly is in my view, differences in the incentives in terms of how we get there and that may change by what kind of either for-profit, non-profit you are. I mean as I said, the corporate ones -- yes they answer to shareholders but many of the for-profits that we talked about that I represent are individually family-owned schools that have their life investment, you know, basically built in that school and their motive is to make sure, not only that their business survives but they know that if they don't educate their students and create a successful outcome that their business is dead.

So there are certainly different incentives within those structures.

CHAIRMAN KEISER: Thank you very much.

MR. SCHENCK: Thank you.

CHAIRMAN KEISER: Our next presented is Robert Shireman, Senior Fellow from the Century Foundation, welcome.

MR. SHIREMAN: Thank you so much. Mr. Chairman and members of the Committee, thank you for the opportunity to testify today. My name is Robert Shireman, I'm a Senior Fellow at the Century Foundation.

Repeated scandals in for-profit higher education are frequently portrayed as intentional frauds perpetrated by bad actors. I do not believe that the mistreatment of students has primarily been caused by bad people. The problem is bad incentives.

And the purpose of a non-profit entity is to impose strict, internal restrictions that in the words of one expert cited in the materials that I provided you, decreases their incentives to take advantage of under-informed consumers. Treating students well is not just about compliance with laws against false advertising or against paying bounties to recruiters -- it is about every day business decisions that can go legally either way -- like whether to tell a prospective student that a college is not a good fit, whether to correct a student's mistaken impression that her health assistant courses will transfer into a nursing program, whether to decrease costs by increasing class sizes, whether to pay recruiters more than instructors and whether to require students to sign away their legal rights by inserting an arbitration clause into an enrollment contract.

Who has the power to make these decisions? Where the control is in the hands of investors or others with a financial interest, it is far more likely students end up hurt as a result of the decisions the college makes. We see this damage in default rates, in loan repayment rates, in employment outcomes and in fraud complaints, filed by former students seeking federal loan relief -- more than 98% of which are about for-profit colleges.

Some for-profit colleges have thousands of fraud complaints. Most non-profit and public schools have maybe zero or a few. Southern New Hampshire for example with 100,000 students enrolled has three. It is telling that the top three non-profits and fraud complaints with 92, 76, and 75 are non-profits that converted by retained the money-making incentives of their former owners.

I have here an enrollment contract from one of these converted for-profits. It has an arbitration clause, but worse it says that if the school wins in the arbitration, the student pays and if the student wins the student still pays, heads I win, tails you lose.

That is a clear sign of a predatory college focused on compliance -- making money without going to jail rather than an ethical and excellent treatment of students. Valid non-profit governance does not guarantee a perfect college but it does encourage business decisions that are more aligned with student's interest and in the public interest.

We need NACIQI's leadership to preserve and enforce valid, non-profit control of colleges and to prevent for-profit colleges from applying a misleading non-profit label. I'd like to end with one quote from 1997 from the head of the For-Profit College Association, Steve Gunderson's predecessor who said that the 1992 regulations had had a purifying effect on the sector and that a stronger group of schools is emerging.

That person became the head of ITT Tech which then defrauded students in the early 2000's. This keeps happening over and over again and we can't let that happen. Thank you.

CHAIRMAN KEISER: John?

MR. ETCHMENDY: So, Bob, could you say -- so I mean I take your point. I think there are some very bad actors in the for-profit sector. There are no doubt some bad actors in the non-profit sector and -- but I do take your point that the difference in structure -- the non-profit strictures do decrease the incentive on the part of the decision-makers to act badly toward their students, I guess.

Could you say something about why or whether you think the same observation should apply to the medical establishment? And we have for-profit hospitals, we have for-profit medical practices and so forth and so on and of course we do also have abuses but they -- I don't know that it is particularly concentrated on the for-profit sector, I just don't know.

MR. SHIREMAN: Yeah, so I think the comparison to the medical risk to health care is very interesting and some of the Seminole work that has compared for-profits and non-profits in the same industry has been in healthcare where they found that in fact the non-profits were engaging in better care in precisely the same kinds of situations.

The for-profits for example, for-profit nursing homes I believe it was were providing four times more sedatives in the same medical situation because it's cheaper and easier to provide a sedative than to provide other kind of care in a nursing home. So some of the research that shows that in fact non-profit governance, when it's valid has a positive effect on outcomes and is in effect a consumer protection mechanism. That research much of it comes from healthcare.

Healthcare is also an interesting comparison because for-profit hospitals, you sort of get this sense, you know, why don't the for-profits in higher education enroll higher income students? The reality is if you look at for-profit hospitals, higher income people have nothing against for-profits per se and they are actually more encouraged into for-profit hospitals and it actually helps to improve the quality of those for-profit hospitals because they're being held accountable by higher income people who are looking for stronger kind of care situation.

You also have in hospitals -- you do have a difference which is the doctors themselves are licensed and you don't have licensing of faculty in higher education so there's some differences there to help to create some protection in health that we do not have in education.

But I do think it is useful to kind of think about why do the for-profits in education feel that they have to enroll only low-income students. Is it truly just because they think they're unserved or is it because they can get away with serving them poorly in a way that they would not be able to get away with if they were enrolling higher income people.

CHAIRMAN KEISER: Ralph, Claude then Simon and please try to remember we're under time.

MR. WOLFF: I understand, Rob you used the phrase NACIQI should exercise leadership and I just wondered if you could be specific in light of the statutory or regulatory phrase that Jen raised around substantive change.

I mean what would leadership at that time look like to you?

MR. SHIREMAN: I think that leadership would involve NACIQI telling accreditors that when you are reviewing them that you will look specifically at their standards and the use of their standards in reviewing governance and conversions from for-profit to non-profit so the validity of those conversions -- so in your role of oversight.

And then second as an entity that makes recommendations to the Secretary, that you recommend and I would say as soon as possible, recommend to the Secretary a temporary stop of any such conversions while the Secretary --

while the Department of Education reviews the processes and recommend that those processes include public notice of a conversion that has been proposed and an opportunity for public input into that conversion -- all of these conversions are happening behind closed doors.

By the time we find out about them it’s done and that means we don’t have the best minds thinking about is this structured well, is there something nefarious going on here? Is this a real non-profit conversion?

CHAIRMAN KEISER: Claude, Simon, Federico, please remind you we have 22 more.

MR. PRESSNELL: Thank Bob, good to see you. Our limitations are -- we have statutory limitations on what we can look at so in the conversion is a substantive change that accreditors do look at so accreditors are watching these things take place so I’m not sure what you mean by behind closed doors because it is being done, at least in the accrediting bodies are having to approve these things.

My question for you though is based on your earlier comments it seemed to not matter if they were for-profit or not for-profit. You cited an example where a for-profit converted to a non-profit and maintained the same predatory practices. So I’m wondering is the solution really a statutory solution around predatory practices or you know, because you've got -- you have institutional audits, you've got FSA audits, you've got IRS audits for the non-profits to take place, you've got -- you know you've got the triad, you've got all these other things but somehow we're missing your primary concern in that structure so could you maybe --

MR. SHIREMAN: Yeah, so the problem in being a valid non-profit is a regulation why it is just totally disingenuous for the industry to claim that they're not being treated equally. They are. Non-profits are required to place all of their revenue back into the education and are prohibited from having people at the top making -- or in any decision-making role, who are taking the equivalent of profit.

So those are very strict regulations on the finances of an institution. It is legal for a -- a person can donate to a for-profit entity but they don't because they know that the owner can just put it in his pocket. A non-profit has people who are not allowed to take the money who decide whether it is being spent well and that's why people -- that's why especially when you have something that is difficult to monitor and this gets to your question about you know, let's just prohibit all of -- all fraudulent activity.

Well that question of whether -- whether this is the right institution for this student is not the kind of question that you can regulate a precise answer to that. And education is about hundreds and thousands of those judgment calls that cannot be regulated from afar which is why it is better for it to be under the control of people who can -- who are not looking to make money off it themselves.

They are in an additional accountability kind of role but that has to be enforced in these situations where -- I think you need to separate into two different categories -- the problem you’re describing is no regulation is perfect. Being a non-profit is not going to make you perfect just as telling people they can’t drink when they drive doesn’t mean that all drivers are perfect. There are still people who get into accidents and make stupid decisions and are distracted.

So we can’t just take examples of distracted drivers who got into accidents and say well, that means we shouldn’t be caring about, you know, texting and driving because you can get into an accident in any kind of way.

But non-profit status itself does need to be enforced and the problem is the IRS is no longer enforcing non-profit -- valid non-profit status and you’ll hear from some non-profit lawyers later today talking about what's happened there. So non-profits -- valid non-profit status needs to be enforced so that these covert for-profits that have applied a non-profit label are not allowed to do so and then non-profit status will have meaning.

Will have more meaning --it has more meaning in the United States than anywhere else in the world. We don't want the higher education systems they have in the rest of the world where there's very little distinction between non-profit and for-profit.

CHAIRMAN KEISER: If I may again, we're going to lose our quorum right around noon-time so please if the speaker -- because we want everybody to have a chance to speak so if your question is really critical please and if the speakers would please try to answer the question directly. Thank you, Simon you're up.

MR. BOEHME: Okay thank you and I'll be quick and hopefully the response will be quick too. Do you believe that any for-profits should be converted and if so, what does the legitimate conversion look like?

MR. SHIREMAN: A legitimate conversion would be to an entity that has no connection to -- so a purchase by a completely separate entity. I think actually the ECMC purchase of the Corinthian colleges was a legitimate conversion to non-profit that I have some quibbles about the fact that ECMC pays its board members but you didn't have any of the former owners involved in figuring out what the evaluation should be and then being paid as landlords and accreditors of a converted institution -- so that's an example of one.

CHAIRMAN KEISER: Brian?

MR. JONES: I'm interested in your know, thoughts about the evolving landscape in higher education where you do have for example, public and non-profit institutions partnership with for-profit entities to take large programs online.

Or in that case, you cited southern New Hampshire and look at Liberty and others where you have non-profits -- publics that are growing very fast. You said that the non-profit model requires that all profit be recycled in the educational purposes but we also know that those big online institutions whether you're for-profit or non-profit, spend a lot of money on marketing.

Southern New Hampshire last year spent almost 100 million dollars on marketing. Western Governor's about 35 million. So in that light I'm wondering if the idea that the non-profit model in and of itself is you know, is a guarantee or an indicator of quality or student service is really misplaced.

And I wonder if Claude isn't really on to the rate thing when he said that really shouldn't the focus be on making sure that accreditors and the Department and the states are focused on making sure that -- A -- as I said before that governance is transparent.

I agree with you that these covert conversions are not a good thing but if we're making sure that governance is transparent and you're protecting against fraudulent and other bad activity, isn't that really where the focus of accreditors -- the Department and the states ought to be?

MR. SHIREMAN: I think if it was possible to -- I think it's important to think about the role of accreditation as like the entity providing the driver's license and that non-profit, for-profit and public is the question of who is the driver and what are their incentives?

And you're going to have much more impact on good driving of a school by focusing on who is the driver and what is their incentive rather than just who issued the driver's license. And what you're asking is can we have the issue of the driver's license pay more attention to what's happening of the driving of the car and it's just not possible in the running of the school.

I think it is very positive that we have non-profit and public institutions that are aggressively trying to enroll students who have not traditionally enrolled in college. I think they are more capable of stopping when it gets out of hand than and I think the evidence suggests that they are more capable of stopping when it gets out of hand because they're not blinded by, because they're not blinded by that profit motive and they don't have investors that are eager for a higher stock price which admittedly and folks in the for-profit industry admit that that has an impact and they have to resist it and you don't have that in the non-profits.

MR. JONES: But talking about in the case where the institution is partnered with a for-profit entity that may have all those incentives whereas you do have some concern with a converted number.

MR. SHIREMAN: It's absolutely a concern when an institution basically contracts with somebody to run everything and I do have concerns when these are percentage of tuition kinds of approaches. I think there are some real hazards there. We haven't seen them explode with problems but it feels like that could happen at any moment, yes.

CHAIRMAN KEISER: Thank you, Frank real quick?

MR. WU: Yeah very quickly. I was actually a little puzzled but I think Claude and Brian helped me grasp your comments. I understand you to be saying that for-profit institutions have a different set of incentives and it's not whether they're good people or bad people because of the incentives, they just behave differently and that behavior is detrimental to students?

MR. SHIREMAN: Yes.

MR. WU: As compared to --

MR. SHIREMAN: More likely to be detrimental to students, yes.

MR. WU: So here's what I was wondering. I was wondering well, why does he oppose conversion then because if the for-profits have these bad incentives and the non-profits don't, you should be celebrating conversion?

But I hear you saying two things so I just want to repeat back what I heard you say. Two reasons these conversions trouble you -- some of them, not all of them, but some of them. The first reason is they're conversions in form but not substance.

In other words, it's the same people. They've created some type of legal structure which is nominally non-profit. That is it superficially has the appearance of being a non-profit but either the same people are involved or they're being paid salaries or they own the land, they are receiving rent -- there's some way that they can still extract what is essentially profit from a non-profit -- that's the first reason.

The second is you're saying the IRS has become lax in enforcement of some of the aspects of non-profit status which allows these bad practices. If the conversion were pure to a --

MR. SHIREMAN: Yes.

MR. WU: To other third parties and were real conversion you'd be here saying, that's good.

MR. SHIREMAN: Absolutely, yes. In fact when I first heard about colleges converting I thought that's great, that's great it will help to make sure that students are served better and it wasn't until a few years ago when I wrote the report that I think we submitted where we saw that former owners, basically found a non-profit organization, had it sign the promissory note to them for hundreds of millions of dollars, kept the property, sold the name of the institution and then were paid for the rent on the property, paid for the loan, the so-called loan that the school made that involved no real transfer of cash and maintained other lines of money into them.

And you know, feed money to people on the Board in ways where it's not a real non-profit.

CHAIRMAN KEISER: Thank you next speaker is -- what?

MS. NEAL: Sorry Art, it's good to see you Bob and I agree on many things and disagree on others and I guess as I'm listening to you today what I'm hearing is that students going to for-profit schools have been treated with regular and repeated cases of fraud and abuse that should disturb us all.

And what I think I'm hearing second is that when we look at non-profit and public institutions students there who are receiving billions of dollars in taxpayer subsidies and my money regularly, they really don't have a problem when they look at massive debt loads that they're being forced to hold when we look at graduation rates at 4-year which are less than 40% but that somehow that universe of students has no complaint, it's only the students that go to for-profits. I guess I'm having some difficulty with that.

MR. SHIREMAN: I think you'll find that I have been critical of all sectors of education in ways that none of them are pleased about and that at the same time it is statistically true that somebody entering a for-profit college is 200 times more likely to end up feeling that they were defrauded than someone entering a non-profit college based on the data that exists.

And so as with a lot of other regulations, non-profit is a regulation -- it's useful and I worry that we have institutions that don't even recognize that they have different incentives that are causing those problems for those students.

MS. NEAL: And would you agree that accreditation started and remains largely a peer review process?

MR. SHIREMAN: I would agree it started that way. I'm not sure I think it's a real mix right now in terms of --

MS. NEAL: And do you think that faculty and administrators who for the large part our composed accrediting bodies, that these are energies that are able, qualified, to review fraud and abuse or is that something that would more properly be in a consumer protection bureau as opposed to faculty and others who have been asked to assess educational quality?

MR. SHIREMAN: I think accrediting agencies don't usually have the kind of police powers, subpoena powers, et cetera that's appropriate for a kind of fraud approach but I think it's also important to recognize that certainly some students were defrauded but a lot of them -- they were never actually lied to.

There was just a lot of wink-wink, nod-nod kinds of things that were -- that really are quality kinds of issues like quality advising of students that -- that accreditors can and should review.

MS. NEAL: As Congress and as we go forward looking at accreditation as it currently exists, there has been quite a bit of discussion about double standards if you will in terms of what we expect in the regulatory restrictions on for-profit schools and national accreditors vis-à-vis regional and non-profit schools.

Is there some sense in your mind that there needs to be some parody across the -- across institutions -- non-profit and for-profit so that the same standards apply to everyone?

MR. SHIREMAN: I think that every school should have an oversight body that controls the budget of the school that does not have a financial interest, so sure, I'm for parody and that parody -- if we're going to have parody it needs to include that kind of parody.

CHAIRMAN KEISER: Thank you, the next speaker is Christopher J. Madaio, Assistant Attorney General from the Consumer Protection Division, the Attorney General of Maryland.

MR. MADAIO: Thank you Chairman, NACIQI Committee, Christopher Madaio, Consumer Production Division, Office of the Attorney General of Maryland. My office and other state consumer protection divisions enforce our states unfair and deceptive trade practice laws.

In recent years we brought cases against at least 13 for-profit schools which include EDMC, Kaplan, DeVry, Career Education Corporation and of course Corinthian and ITT. Our case has asserted claims based on various unfair and deceptive misrepresentations and omissions of material fact in the recruitment of students.

We found intense boiler room style call centers that were lying to students about the true cost of the school, job placement rates, the ability to obtain licensure, the transfer of credits into the school, transfer of credits out of the school, other false information about their programs and were also using harassing and high-pressure recruiting tactics that have no place in higher education.

In light of the recognition that there is an inherent problem with for-profit schools that result in nearly all of the consumer complaints that our states are receiving, Maryland and other states pass various laws that place requirements on for-profit schools.

Such laws included bond and guarantee fund requirements, disclosure laws and prohibitions on enrollment of students in career programs who would be unable to ever get the licensure.

So why are schools making these conversions now? One reason as some schools have openly admitted is they want to convert to non-profit status to escape the stigma of for-profit schools and recruit additional students.

However, for-profit schools have given themselves the stigma by their own actions. Indeed it's not necessarily a bad apple problem as it is sometimes a barrel problem when the incentives of for-profit schools continue to result in bad conduct.

As well, we believed that some of these conversations would serve to avoid and evade state laws designed to protect students. Basically this is not about looking only at past outcomes -- it's about looking at the history and understanding whether students are going to be harmed in the future.

For-profit schools should not be given the benefit of the doubt by their accreditor that a conversion to non-profit is good for students or that it reflects nothing more than a tax status change. The track record of the school should be analyzed and specific structure of the deal itself, whether the non-profit has any relationship with the existing for-profit and its investors should be scrutinized.

It should not be assumed or trusted that meaningful improvements indeed or that no improvements need to be made, will accompany the school to escape their history, avoid a well-deserved bad reputation and provide a tool to potentially deceive students with a rebrand that does not involve any substantive changes.

Essentially the schools are trying -- sometimes trying to put a lipstick on when it's still a pig underneath them. NACIQI should recommend that accreditors and the Department design and implement strong policies and procedures to get ahead of this trend and stop schools from making a mockery of regulatory requirements that are designed to protect students, thank you.

CHAIRMAN KEISER: Thank you for recognizing the three minutes.

MR. MADAIO: You're welcome.

CHAIRMAN KEISER: Questions? Thank you very much.

MR. MADAIO: Thank you.

CHAIRMAN KEISER: The next presenter is Tim Powers, Director of Student Aid -- oh I'm sorry Nicole Nina Hochsprung, Senior Associate, Higher Education of the American Federation of Teachers, AFL-CIO.

MS. HOCHSPRUNG: Good morning. So one as

of yet unresolved crisis I believe we should all have front of mind when considering this issue is the collapse of Corinthian College. The collapse of Corinthian in 2015 was only the most visible and notorious in a series of similar institutional calamities to befall students and taxpayers, but it embodied many of the worst abuses in higher education, further exposed the absurdities of a system that burdened students and families with unsustainable debt for credentials that are too frequently of minimal, personal or a social utility and reflected a variety of other trends that afflict the higher education system as a whole regardless of tax status.

Real higher education -- the kind that has made America a truly great proving ground for achievements in all sectors of the economy and in the entire range of human endeavor can both prepare students for careers in a variety of fields and contribute to the greater good.

Real higher education requires meaningful investments and educators who are well prepared and supported who have the standing as professionals and the freedom from political interference that enable them to lead their students through real ideas, however challenging those ideas might be.

Real higher education is readily accessible and real higher education is truly accountable to everyone involved in paying for it. Every element of accreditation should be considered with an eye towards whether it advances real higher education or allows phony imitations of it not only to exist, but also to profit from taxpayer support.

This is the Corinthian test. Under current rules, allowing an institution to convert from a for-profit to a non-profit fails the Corinthian test. Accreditors are the only part of the three-legged stool that looks deeply into a college's oversight structure into matters like governance.

It is the governance structures, not the tax status that makes a difference, especially in times of crisis. There is a meaningful difference between the sudden and disruptive closures of ITT Tech, Dade Medical College, the McNally Smith College of Music and the orderly closure of institutions like St. Joseph's College in Indiana and Mount Ida College in Newton, Massachusetts.

The former would describe their cookie-cutter curriculum, faculty composed entirely of temps and lack of student support services as competitive advantages in their SCC filings. While these characteristics may provide a larger profit margin to investors, they are the exact opposite of the characteristics that research shows lead to student success and educational opportunity.

What we should learn from the collapse of Corinthian and other schools like it is that accreditation does not adequately deter actors with the motives and governance structures of for-profit colleges. Their oversight structures will continue to favor the personal enrichment of their boards, largely with taxpayer dollars over the education of students regardless of the technicalities of tax status.

Accreditors must assault the legislative and policy earth that allowed Corinthian Colleges to exist, that must include a deeper analysis of governance and incentive structures. Checkbox accreditation reviews should not be sufficient considering the harm we've seen done to students and taxpayers in recent years.

On behalf of the largest unionized instructional workforce in American higher education I have three requests of NACIQI. One is that NACIQI recommend that the Secretary place a moratorium on federal approval of conversions to non-profit status until the Education Department's procedures can be updated to reflect the unreliability of IRS determinations.

Two -- inform accreditors that in its reviews NACIQI will carefully examine whether accreditors are reviewing non-profit colleges and conversion requests thoroughly, paying special attention to governance and three -- recommend that federal student aid make public all requests for pre-acquisition review and establish a process for input.

CHAIRMAN KEISER: Thank you, questions -- thank you very much. Now, I'm going to Tim Powers, the Director of Student Aid Policy at the National Association of Independent Colleges and Universities.

MR. POWERS: Thank you so much, good morning everyone. My name is Tim Powers and I'm here today to speak on behalf of the National Association of Independent Colleges and Universities.

NICU advocates on behalf of the Presidents of the nation's private non-profit colleges and universities. The NICU membership believes that the non-profit model of higher education is the best model for serving students and the public interest.

Virtually every data point indicates that non-profit colleges and universities best prepare our students for life beyond the classroom from graduation rates and loan repayment statistics to employment and civic engagement outcomes.

The foundation for those superior outcomes is the mission-based philosophy of our institutions. As you know non-profit colleges and universities are governed by a Board of

Trustees bound by a legal and fiduciary responsibility to fulfill the mission of the non-profit institution of higher education. While the mission statements of our colleges and universities are as diverse as the institutions themselves, the Board is responsible for ensuring through proper governance that the institution meet that stated mission.

At private non-profits there is no profit-making motive. There are no shareholders. There is no conflict between meeting educational and profit-making objectives. Any surplus remains invested in the institution itself, not withdrawn to pay investors.

NICU has always been supportive of expanding the non-profit model as the best means to improve access, opportunity and success for the nation's college-going students. As such, we believe that institutions seeking to legitimately convert from for-profit status to non-profit status, should be cautiously welcomed, not mechanically condemned.

However, such conversions must be genuine and closely monitored by the federal government. Mechanisms must be in place to identify and prevent any institution seeking to convert from for-profit to non-profit as a means to skirt regulations or to utilize its newly found non-profit status, simply as a corporate shell.

Moreover, existing private non-profit institutions must carefully comply with IRS rules and regulations in order to maintain their non-profit status. The federal government has the tools to insure compliance and should utilize those tools to dutiful enforce federal tax laws, rules and regulations.

At NICU, we are acutely aware that no two colleges are the same. Every institution that seeks to convert from for-profit status to non-profit status must be scrutinized on its own merits. We ask that the federal government ensure that this is done in order to maintain the integrity of the federal student aid programs, thank you for your time and I'll be happy to answer any questions.

CHAIRMAN KEISER: Thank you, Simon?

MR. BOEHME: I'll make this a great question. So I guess why do you find this trend concerning or why -- I understand, you know, this corporate structure and things but dive deeper into what is genuine.

MR. POWERS: Well that's a conversation that we need to all think about together and I think for our members the traditional model is one that as we've seen recently is changing and so we would be willing and able to have those conversations among our membership to really dive into what is a genuine non-profit conversion, but we are just not capable at the moment for making that determination right now.

MR. BOEHME: And do you think accreditors are up to address some of these and make the assessments if it's a genuine conversion?

MR. POWERS: Accreditors should of course play a role in determining the status.

MR. BOEHME: But can they do it?

MR. POWERS: I think they can when they look holistically at the institution.

CHAIRMAN KEISER: Thank you the next speaker up is Gary Steinke, I hope I get that correctly, President of the Iowa Association of Independent Colleges and Universities.

MR. STEINKE: Mr. Chairman before I sit I had some -- because then you'll start the clock. I had submitted some written comments that didn't get into the --

CHAIRMAN KEISER: The written comments need to come by a specific date, is that correct?

MS. HONG: Yes.

CHAIRMAN KEISER: So please hold those, thank you.

MR. STEINKE: I will, thank you. Good morning, my name is Gary Steinke. I've spent a lifetime -- 30 some years in higher education leadership in Iowa with public and not-for-profit institutions. This will be the least academic presentation that you'll hear today.

My son Tyler is 21 years old and he was born with autism. And since that time Tyler is intellectually disabled and since that time my spouse and I have been very hardworking advocates with those people with intellectual and physical disabilities in the State of Iowa.

I've been on the Board of Special Olympics Iowa for as long as I can remember and about -- in about 2008 dozens and dozens of parents and athletes themselves, were coming to me and telling me that Ashford University and Kaplan University in Iowa were making contact with them to convince them that they could get a college degree and would like to come to their house with a laptop computer and fill out the FASFA.

And they were telling these parents and these athletes that it could be as much as $12,000, $6000 from the PELL grant plus the money from the Iowa Tuition Grant which would total about $12,000.

And they were convinced that that meant that that money was going to be in their pocket and so as best I could and as often as I could I explained to them that wasn't going to be their money ever and did they really believe that their son or daughter, like my son, would be able to graduate and get a 4-year degree from one of these institutions?

And of course, we all realized that that wasn't going to be the case. I must tell you that this conversion issue from a very non-academic point of view is deplorable. It is sick what they did in Iowa. And in the strongest possible terms I would ask you to make a recommendation that profit margins are not important enough to take advantage of the least of our citizens.

Profit margins are not what higher education is all about and maybe this didn't happen across the country -- maybe it didn't happen with every private college, it doesn't matter. If it happened once, it is a deplorable and sick practice and I can't believe I finished early Mr. Chairman.

CHAIRMAN KEISER: Neither can I but that's okay. Thank you for your very heart-warming, very important message, yes heart-felt, any questions? The next presenter is Liz King, Director of Education Policy, the Leadership Conference on Civil and Human Rights.

MS. KING: Thank you. My name is Liz King and

I am the Director of Education Policy for the Leadership Conference on Civil and Human Rights in Washington, D.C.

We are a coalition charged by our diverse membership of more than 200 national organizations to promote and protect the civil and human rights of all persons in the United States. Through advocacy and outreach to targeted constituencies we worked toward the goal of a more open and just society -- an America as good as its ideals.

The civil rights community has long recognized equal educational opportunity as central to our struggle to achieve equality for all Americans. It is in that spirit that I offer the following remarks regarding the civil rights community's priorities in the reauthorization of the Higher Education Act -- the importance of robust oversight of post-secondary institutions and the need to protect students from exploitation by for-profit colleges including for-profit colleges masquerading as non-profit.

The Higher Education Act was first passed in 1965 during the height of the civil rights movement and response demand from low-income communities and communities of color that the federal government do more to open the doors to higher education and enable students to attain the education and degrees they knew would mean economic social and political opportunity in the United States. While some challenges remain the same, new challenges have arisen in the 50 years since the law was first passed.

The fundamental desire of communities, however, and the obligation of the federal government to assist remain the same. It is in this spirit that we offer the following principals that must be included in a reauthorization of the Higher Education Act and inform higher education policy more broadly if we're going to strengthen and build a higher education system that provides equitable access to and success in a high-quality, post-secondary education for all students, especially for those students who have historically experienced and continue to experience barriers to success in higher education.

I would like to share a few of our priorities for the reauthorization of the Higher Education Act which are more broadly applicable in decisions regarding higher education policy including the work of this body.

I am happy to provide the full document to the members of this Committee. We call for higher education policies that remove barriers to enrollment and promote meaningful access for historically marginalized students including students of color, native students, low-income students, English learners, students with disabilities, adult learners, pregnant and parenting students, opportunity youth, immigrant students, LGBTQ students, homeless students, youth in or existing foster care currently incarcerated individuals and individuals who have had prior contact with the justice system including by providing for quality educator preparation so that students are prepared for success after K-12 and address barriers and access to a post-secondary education caused by historic and present day race-based exclusionary policies and practices.

Make college affordable for low-income students -- design accountability system to ensure that students receive value from their higher education, exclude for-profit colleges including covert for-profit colleges masquerading as non-profit from federal financial aid programs unless they have demonstrated their value to students through increased student owning --

CHAIRMAN KEISER: Please try to wrap that up.

MS. KING: Yep, protect student loan borrowers from abuse of fraudulent practices and exploitation in the federal and private student loan servicing and debt collection. I appreciate the opportunity to share these remarks today and urge this body to hold of central importance, the fair treatment of all students in our higher education system, thank you.

CHAIRMAN KEISER: Thank you, thank you very much. The next is Eric S. Juhlin, President and CEO of the Center for Excellence in Higher Education.

MR. JUHLIN: Good morning. My name is Eric Juhlin, I'm the President and CEO of CEHE, that's the acronym we use. We have 16 colleges in the western United States as well as an online college.

Looking at the list of folks talking today I think I'm the only one who is actually a senior executive of an institution that has gone through this process that was prior a for-profit proprietary institution and then converted over or through a transaction became emerged into a non-profit -- an existing non-profit.

I don't know if that makes me the bravest speaker or the dumbest speaker to come here because I'm the only one that's actually been through that that's here to testify. But I think there are two questions facing NACIQI. The first one is should this organization provide policy recommendations to the Department of Education relative to its review of change of ownership processes.

The second question I think is should NACIQI modify how it assesses accrediting bodies and those accrediting bodies' review of institutions that undergo a change of control or a change of process. From my perspective the answer to question number 1 is an unequivocal no.

I think the Department of Education has an extremely strong, robust and thorough and comprehensive process for the review of institutions that are undergoing a change of ownership or control.

Moreover, in the specific instance where an institution is going from a proprietary ownership structure to a non-profit ownership structure, they're inherently bringing into play another layer of oversight, scrutiny and regulation from the Internal Revenue Service.

Now we've heard comments already today and you'll likely hear more from those who argue that the IRS is under-funded, under-staffed and should be disregarded. I don't agree with that perspective.

From my perspective the IRS does an exceptional job in analyzing the organizational structure, the control structure, the governance, the operations and any issues related to improper inurement for non-profit institutions.

We've seen that first-hand and the IRS has decades and decades of experience conducting those reviews. My answer to the second question is maybe. And to explain that I'd like to use the example -- the impressive work that NACIQI has done with respect to outcomes recently.

NACIQI has shown that rather than approach that work on outcomes from a political or ideological basis, it has approached it from an objective, rational and empirical perspective. Not only do I think that is right, I believe that is just.

I would encourage NACIQI to follow the same approach when assessing accreditors on how they conduct their reviews and the comprehensiveness of their reviews of institutions changing ownership.

I'm unaware of any empirical objective data indicating that institutions that went from proprietary structures to non-profit structures experienced a degradation in education quality, student learning or outcomes.

This Commission can and should look at the data for those institutions that have previously gone from a for-profit to non-profit status, analyze that data on an empirical basis and then see what the data tells you -- if it indicates to actions are warranted then you can move forward with those actions.

CHAIRMAN KEISER: Please wrap this up.

MR. JUHLIN: Sure, don't accept or take action based on political ideology or influence or hyperbolic opinions. Remain objective, look at the data and then decide if action is needed, thank you.

CHAIRMAN KEISER: Thank you very much, any questions, thank you Eric. The next person would be Tariq Habash and hopefully I get Tariq right -- is that right Tariq? Tariq -- excuse me, Senior Policy Associate the Century Foundation, welcome.

MR. HABASH: Good morning, Mr. Chairman, members of the Committee thank you for the opportunity to testify today. Dating back to the original GI bill, we've seen abuses of students and taxpayers occur almost exclusively at for-profit colleges.

After each regulatory crackdown in the '50's the '70's, the '80's and in the '90's we saw for-profits reform but then reinvent themselves to circumvent regulatory oversight to grow the flow of taxpayer dollars.

This pattern of abuse is the result of incentives that for-profit colleges have -- incentives that are blunted by the regulations that apply to non-profit entities. This is very much today's issue as the latest act of elicit reinvention now comes in the form of non-profit conversion.

We are now seeing a trend where for-profit colleges want to apply a non-profit label without properly separating the profit from corporate control. In some cases like the Center for Excellence in Higher Education, the Dream Center and Grand Canyon among numerous other recently announced conversions.

Proposed structure still allowed the former owners to hold power over the decision-making of the institution. In some cases former owners remain on the non-profit Boards, they maintain properties and corporations that help provide services for the institution, they charge the non-profits rent. Sometimes they even allow family members and business partners to hold power within the new non-profit.

These covert for-profits threaten to deceive consumers who rightly view non-profits as safer and they threatened to destroy the non-profit sector in the same way that the for-profit sector has been sullied. Students already take eligibility for federal financial aid as a signal that the government values the degrees from schools that don’t often produce good outcomes for students -- allowing covert for-profits to mislead consumers through marketing their newly minted non-profit status will allow them to have long-term effects on the revered private, non-profit higher education system in America.

The reality is that true non-profit and public oversight is effective in reducing exploitation in education but the non-distribution constraint, the restriction that makes non-profits safer for consumers must be enforced. Accreditors and policy-makers must not be complacent, thank you.

CHAIRMAN KEISER: Thank you for under 3 minutes, questions? Thank you very much. The next presenter is Clare McCann, Deputy Director for Federal Policy of Higher Education at the New America. That's the New America Foundation right?

MS. MCCANN: We dropped Foundation.

CHAIRMAN KEISER: Oh you dropped Foundation, okay, just New America.

MS. MCCANN: Thank you, good morning. My name is Clare McCann. I'm just going to be brief here -- I'll only take a couple minutes of your time. For-profit institutions have an extensive history of engaging in financially motivated behavior that has harmed students and cost taxpayers billions in wasted financial aid dollars.

Decades of experience have shown that for-profit colleges are more likely to engage in aggressive recruiting, less likely to maintain quality and rigor in their academics and more likely to shift spending from institutional expenditures to marketing, recruiting and other areas and that's because they are focused on their bottom line.

At many for-profit institutions students outcomes are poor with disproportionately higher rates of student loan default, high costs and poor workforce outcomes. As NACIQI has discussed for years now, these are critical areas in which accreditors need to be working, and these are also important areas in which NACIQI should be involved.

In recent years a number of for-profit institutions have converted or attempted to convert to non-profit status through complex models like the ones you've heard about today. And in some cases an institution may legitimately change its business model to minimize that profit motivation so that it's operating as a true non-profit.

But in other cases the conversion is nothing more than smoke and mirrors where the college becomes a non-profit in name only but its owners and investors continue to operate the school motivated by profit. And given the financial and other implications for students and policy-makers, those kinds of illegitimate cases should set off alarm bells for regulators like accreditors and the education department.

The key is having strong policies in place to assess each case carefully, thoroughly and accurately. To its credit, ECCSE is one accrediting agency that has taken a first step to factor conversions into its policies by proposing to limit changes in control that don't truly change the corporate structure of the institution.

But assuming the trend of conversions continues, this is an issue that will affect many accreditors, many institutions and many students and it's not clear all accreditors have begun to consider the right way to assess conversions.

This is well within the scope of NACIQI's authority. Accreditors are required under federal regulations to have and adequately implement policies for changes in the control of their institutions and NACIQI is charged with a fairly broad mandate under the law which includes a role in advising the Secretary on specific accrediting agencies recognition.

So it's hard to imagine how this Committee can effectively discharge that responsibility without considering whether the Agency's policies are sufficient in this area.

Additionally, NACIQI is expected under the law to advise and make recommendations to the Secretary of Education, both on the standards that accreditors create and enforce, and on the Department's own eligibility process for institutions. So I urge all of you to take up this issue as an Advisory Committee of experts on quality assurance and lend your expertise to agencies and the Department, both in its own oversight of institutions and in its oversight of accreditors, thanks.

CHAIRMAN KEISER: Thank you, other questions --?

MS. NEAL: Could you answer for me what percentage of the overall higher education delivery system is for-profit?

MS. MCCANN: I believe they enroll about 10% of students and account for about 30% of student loan defaults.

MS. NEAL: So when we look at the fact that the 4-year national graduation rate is less than 40% and the admittedly first-time full-time and the 6-year graduation rate is less than 60% first-time full-time, do you agree that those students are not disserved are largely in non-profit and public institutions that those have not been abused by the system?

MS. MCCANN: I think it's absolutely important to focus on the outcomes of students at all institutions but also recognizing that there is a heightened risk in the for-profit sector of seeing those kinds of poor outcomes and of seeing more than just poor outcomes, also very aggressive recruiting behavior and misrepresentations and other issues sort of on the front end of enrollment.

I think it's very important to focus your review where the risk is the greatest but to ensure that there's accountability throughout the entire system.

CHAIRMAN KEISER: Any other questions -- thank you very much. The next person onboard is Brian Galle, Georgetown University Law Center.

MR. GALLE: Thank you Mr. Chairman. I'm Brian Galle, I'm a Professor of Law at the Georgetown Law School and I teach courses on taxes and non-profit organizations. And I'm here to explain why accreditors can't rely on the IRS to identify which non-profit colleges are really acting like non-profits, which colleges will have good governance.

And you can find more details in the written submission that I sent to NACIQI. So every year IRS grants 501C3 tax exempt status to thousands of firms that probably fail one or more of the key legal requirements for that status.

The reason is that the service just lacks the manpower to scrutinize applications, they get more than 80,000 a year and they lack the resources to litigate closed cases. And that problem has gotten worse over time until 2010 the IRS was denying hundreds of applications each year. In 2016 it denied 9. Not 900, 9. Sometimes the IRS does catch up to organizations as time and tax returns reveal that the organizations aren't really charitable but revocations of exempt status are very rare and the process takes many years.

A recent example that I think shows the IRS's unreliability at the grant stage is the application of Grand Canyon University which was recently awarded C-3 status. Now, when I read the documents it looks like Grand Canyon is going to pay about 48 million dollars a year in interest plus 50% of its gross revenues to its for-profit partner.

It shares a Board and a CEO with that partner. In short it seems to me Grand Canyon's totally indentured to and controlled by a profit-seeking partner and has every incentive to maximize revenues and not student success.

Its non-profit status in my view is just a mistake. And existing law I think clearly establishes that -- there are IRS private inurement rules that demand that charities be independent of for-profit control. They effectively prohibit shared Boards and they strongly found on distributions that are based on a percentage of revenues. And yet for now Grand Canyon is a tax exempt organization.

An illustration of how long it can take the IRS to detect excess private inurement would be the Center for Excellence in Higher Education. In 2012 it acquired 3 for-profit colleges using about 431 million dollars in funds that were lent to it by the former owner of those colleges. He now serves as Chairman of its Board and as I understand its documents he also chooses the other members of that Board.

By my math, CEHE has made total payments of on average about 65 million dollars per year to its Chairman. In my view it faces serious legal questions about its exempt status, yet for 6 years it has retained it.

So what I'm suggesting is that NACIQI should require accreditors to use their own judgment about a college's true status -- a college that tells applicants it's a non-profit but acts like a for-profit is misleading students and misleading other regulators.

Some day when the IRS comes calling, that college may also have a crippling tax bill that will threaten its fiscal viability. Accreditors should be able to take these considerations into account in carrying out their mission to protect students and other stakeholders and indeed you should demand that they do so, thank you.

CHAIRMAN KEISER: Thank you, other questions -- Frank?

MR. WU: Just a quick question. So I understand you to be saying the IRS today, doesn’t do a very good job detecting these sham conversions and I understand you then to be saying accreditors -- if asked to do so, could do a better job, is that the statement?

MR. GALLE: That’s correct.

CHAIRMAN KEISER: Kathleen?

MS. ALIOTO: In the two colleges that you presented, what was -- do you know what the student success rate was there and the loan default rate?

MR. GALLE: I have no closely studied those no I’m sorry.

MS. ALIOTO: Well you know this whole discussion is about governance.

MR. GALLE: Absolutely.

MS. ALIOTO: And money essentially and this body has been working on trying to focus on student achievement which has Anne points out we have a problem with student achievement on all sectors of education -- that’s why I’m asking that question because I don’t care what somebody is getting paid as the Chief Executive of an institution if the result in terms of student's is good.

MR. GALLE: That's why I would say outcomes are certainly one important factor. Another important factor is the expectations of the people who enroll at that school. We have lots of evidence that consumers have different expectations about non-profits and for-profits and you want to make sure that the promise that is made is the promise that's kept.

Another factor to consider is there is a body of regulations both at the federal level and at the state level that treat non-profits differently than for-profits on the assumption that their incentives and behaviors are different systematically.

And I think that an accreditor that's interested in making sure that all the laws of the various jurisdictions that relate to an institution are followed in their spirit as well as in their letter, that accreditor should give some account to whether a non-profit status is genuine.

MS. ALIOTO: Thank you.

CHAIRMAN KEISER: Thank you. Our next presenter is Christian -- oh, oh --

MS. NEAL: In your review of the Higher Education Act as it relates to accreditors, is there any mention of governance anywhere in the statute vis-à-vis accreditors?

MR. GALLE: I'm an expert in tax law and charitable organizations. I'm not an expert in the Higher Education Act, I'm sorry.

CHAIRMAN KEISER: Okay, good, okay, Christian Smith, Organizing Associate of Higher Ed, Not Debt, please come forward, welcome.

MR. SMITH: Good morning everyone. I'm Christian Smith, Organizing Association with Higher Ed, Not Debt, which represents a coalition of consumers and advocates representing student loan borrowers.

As the trend of for-profit colleges as undergoing conversions continues we believe it is vitally necessary for the student and student loan borrowers. As the trend of the for-profit colleges is undergoing conversions continues, we believe it is vitally necessary for the students and student loan borrowers that NACIQI make sure the financial operations and the governance of these schools are appropriate oversight by the accreditors and ensure that these entities reflect the social welfare they profess.

One prominent example raising concerns around conversions is that of the education management corporation or EDMC which operated for-profit colleges including the art institutions and Argosy University. You will hear and have heard concerns with this particular purchase and it’s particularly problematic given how they’re currently structuring their financial situation through this process.

And I would like to highlight cases where these schools engage in exploitative practices towards their students to ensure that you all recognize that moving forward we have to be absolutely considerate of how this will affect the students as they make their conversion.

So for instance, they’re pressuring students to take out loans as well as deceptive marketing regarding the program quality, credit transferability and graduates employability are notable and need to be considered.

For instance, Elaine from California said that Argosy University took advantage of the fact that she had little financial support for her education. She enrolled because they said they would help her financially -- advise her on how to take out loans. However the cause of the school was putting her in immense financial strain and as the grants and loans she applied for couldn’t keep up with the rising costs of her program, she had to drop out.

And throughout the years she realized that the degree she was studying for would be practically useless given the lack of good accreditation for the school and she had to drop out with $40,000 in student loan debt.

Samantha from California told us that the Art Institute of California and LA lied to her about their accreditation status for years, and they had inflated the job placement rate -- the rating is at like a 99% employability which is quite high.

Her financial aid officers were less helpful explaining tuition costs but were very good at making sure that they took out loans and helped her do so to pay off her enrollment. When she could not afford to attend they called her mother and pressured her to co-sign for high interest loans and even then, as Samantha could not fully cover the cost of the program, they told her she needed to get an extra $10,000 to complete her degree and the family had to take out of their retirement savings just to afford her education.

Melissa from New Jersey was enrolled in a PSY Cy-D program at Argosy University in Tampa and she told us that after two and a half years of dealing with misleading information regarding her applicable course work and credits from her previous degree, she realized that the program was trying to make her take more of their own courses to keep her enrolled longer to collect tuition costs. She is now $100,000 in debt.

Devon from Pennsylvania told us that his degree from Art Institutes of Philadelphia utterly failed to open up job opportunities for him, despite advertising as such. Where still he said most colleges wouldn't accept his credits from the Art Institute so he faced great difficulty continuing his education and improving his chances of finding work.

Given the concerns we have with the practices of EDMC's for-profit colleges and the concerns with how they are financially structuring their conversions to a non-profit, we urge NACIQI inform accreditors that with a recommendation of other consumer advocates present here today and consider that there are immense concerns from a lot of us who are concerned with the student loan debt crisis that needs to be considered moving forward, thank you.

CHAIRMAN KEISER: Thank you, Ralph?

MR. WOLFF: Just a comment. Given the concerns that you raised, the institutions and all of these institutions are regionally accredited and there are complaint systems so I would urge that you advise your -- those who filed these complaints with you that you prosecute them with the accrediting agency and see if they can assist.

MR. SMITH: And certainly, and I want to make something absolutely clear with this too. These reports can come to us throughout the difference crisis we face with this industry, from years lurking back to 2012 through the present day today mainly because the debt burdens held by these students are still committing great financial strain upon them to this day.

And even though the schools either have been shut down or they're going through conversions right now because they lost their accreditation, the effects still remain. And certainly we are trying to tackle this with our coalition at different areas regarding the regulation of the industry, the ways to redress the borrower's complaints and of course, advocating for full relief for these borrowers.

So I believe that given the issue at hand moving forward we have to consider how will these institutions engage in these predatory practices and make sure that when we are considering how we are advising the accreditors, that they have to consider the holistic picture because certainly if we are -- like what was said earlier, just putting other labels on something or as I'd like to put it, you know, changing the chassis of the car without actually changing the engine, that's, you know, driving us to the student debt crisis.

That to not consider the past practices and then also not contextualize that with how the Boards are going to be run through these new non-profits would do a great disservice to the borrowers so I encourage you to consider this as you advise the accreditors moving forward.

CHAIRMAN KEISER: Thank you very much. Our next presenter is David Halperin, Attorney and Counselor, welcome.

MR. HALPERIN: Thank you, members of the Committee good morning. Mr. Gunderson and Carl Barney, Mr. Juhlin's boss, have in the past charged critics with waging ideological war on for-profit schools.

I don't know what ideology they were talking about other than opposition to waste fraud and abuse but they applied, we think everything should be non-profit. Secretary DeVos has echoed that message saying it's unfair to judge schools based on their tax status.

I agree with the Secretary. We can't measure schools based simply on whether they are for-profit or non-profit, that's not determinative of integrity or quality. Some predatory schools were always non-profit like Wright Career College shut down amid charges of fraud or Center for Employment Training

Chicago campus whose director has been indicted.

But today many of the most troubling non-profits are those converted from for-profit. Many deals appear structured to benefit not primarily students, but instead insiders at Kaplan Perdue, Bridgepoint, Keiser, Ultimate Medical.

The other side of this coin is further abuse of students and taxpayers. Many converted schools are using their non-profit status as a shield to exempt them from laws to curb for-profit abuses.

The conversions also free schools of the stigma that their own bad behavior helped create. The result is that predatory schools can deepen their abuses. Last week I published an article sent to you about the new non-profit Dream Center Educational Holdings which has taken over the EDMC's schools and is run by Brent Richardson who is the former CEO of Grand Canyon.

The new enterprise seems to be trying to leverage its non-profit assets to benefit a network of for-profit companies run by Richardson, his family members and long-time associates. Staff there tells me that ethics in compliance are worse than under the for-profit owners.

There's heightened pressure to enroll student at all costs. The company seems to be misrepresenting the accreditation status of some campuses and evading compliance with regulations -- schools driven by numbers act recklessly if no one is holding them accountable.

In 2016 the Department did send a message rejecting the bogus conversion of Mr. Barney's schools. Unfortunately the DeVos Department has demonstrated by word indeed that it is not concerned about predatory abuses.

Accreditors pick up this signal. In 2016 the Higher Learning Commission rejected the conversion of Grand Canyon into a cozy pair invented use for-profit and non-profit. In 2018 HLC approved the same deal. The fact that the DeVos Department and the IRS have abdicated oversight does not prevent you from acting. Indeed you have a duty.

For-profit conversion has become the defining higher ed abuse of the DeVos era and it's happening right in front of you.

CHAIRMAN KEISER: Please just wrap it up.

MR. HALPERIN: Accreditors can curve the practice of corrupted non-profits. If they don't, you should curve the accreditors.

CHAIRMAN KEISER: Thank you very much are there questions -- thank you very much.

MR. HALPERIN: Thank you.

CHAIRMAN KEISER: The next presenter is Douglas Webber, Associate Professor Department of Economics, Temple University.

MR. WEBBER: Thank you Mr. Chairman for the opportunity to speak here. My name is Doug Webber, I'm an Economics Professor at Temple University. No school or sector should be categorized as good or bad, you know, in some moral sense.

Every school is comprised of people who are just doing their jobs by responding to the incentives in front of them. Theoretically the additional profit motives present at for-profits have an ambiguous prediction about whether they will provide a better education value for students.

There is greater incentive to seek out non-traditional students who may be traditionally underserved by non-profits or to spur innovation in the way that education might be delivered. Now if the market for higher education were perfectly functioning, this is where this would be the end of the story.

But unfortunately, the market is far from perfectly functioning and is played by what economists call market failures. A profit maximizing school will charge the highest price possibly while minimizing expenditures on students -- well non-profits are certainly not immune to these incentives. The lack of a personal profit motive does insulate them from some otherwise tough decisions.

For example, my Department regularly runs high-quality classes that are capped at a low student enrollment. The per student expenditure is thus very high and this is most definitely inefficient from a profit perspective but increased one-on-one instruction leads to significantly better outcomes.

As the Director of Graduate Studies of my program I regularly counsel students not to enroll or apply to programs when I believe it’s not in their best interest. Now this undoubtedly costs my school money but I believe it is best for those particular students in the long-run.

It thus becomes an empirical question as to whether the good or bad incentives win out. Your local cable television provider faces exactly these same price and quality decisions in their market. The difference here is that the government is not providing loans for individuals to pay for cable, and choosing the wrong provider does not have the potential to financially hamstring you for decades.

Five-year loan repayment rates are more than 30 percentage points lower at for-profit versus non-profit 4-year institutions. Well this is not an apples-to-apples comparison. A number of studies cited in my written testimony have estimated a causal impact at -- the causal impact of for-profit status on student outcomes and have found it to be very negative.

This is not true at all institutions. There are assuredly some high-performing for-profits and low-performing non-profits but on average, attending a for-profit college will lead to higher debt and worse job outcomes even after controlling for factors like student ability and family background.

Financial incentives are not a bad thing. I have long advocated for a risk-sharing system which would apply to all schools but I hope that the substantial body of research examining student outcomes will convince you that for the good of both students and the American taxpayer that increased oversight and scrutiny of for-profits is both justified and prudent, thank you very much.

CHAIRMAN KEISER: Thank you, any questions -- thank you very much. The next speaker is Jennifer Wang, the DC Office Director for the Institute of College Access and Success, welcome.

MS. WANG: Thank you. In the interest of

answering some of the data questions that have arisen around the table today I did want to share some data that I just pulled from the college board -- 4-year graduation rates for private non-profit schools were 51%, 4-year graduation rates for private for-profit schools was 14% so I hope that that answers Kathleen's question.

Now on to my testimony -- public, non-profit and for-profit colleges all struggle with inconsistent quality and outcomes however these challenges are greatest among for-profit colleges whose students are less likely to see earnings gains, more like to have unaffordable debt, and more likely to default on their student loans.

For example, new analysis that we conducted two weeks ago showed that 73% of schools where most students borrow and few can repay are at for-profit colleges. There are, as mentioned here today already, extensive differences in the goals, governance and regulation between for-profit and non-profit institutions.

These differences are not mere tax status. Strict regulation of public and non-profit institutions is what defines them as public or non-profit. Non-profit colleges can generally only spend money on education or a charitable purpose.

For-profits can spend money on anything. And non-profits compensation pay to top level decision-makers is subject to a dense set of runs intended to protect charitable interests. At for-profits, decision-makers can personally profit from operations of the institution.

In some cases, for-profit executives can feel enormous pressure to prioritize making as much money as quickly as possible. They can, as Andrew Rose and CEO of Kaplan Higher Education wrote, “Exploit the short-term opportunity for profits that’s inherently in this model in a way that hurts students, taxpayers and the entire industry.”

For these reasons, if for-profit colleges fully converted to non-profit status, we would have greater confidence that they would put students first. But we’re concerned that this may not be the case and therefore these conversions allow for-profit colleges to avoid consumer protections and gain a trustworthy sheen while continuing to be run for the private benefit of their owners and executives.

The Senators who wrote to NACIQI are right to be concerned. I have some more new data to share. The default rates of schools that convert from for-profit to non-profit are troubling. Whether compared to non-profits or for-profits, Ed’s latest default rates show 25% of borrowers from colleges recently converted from for-profit to non-profit status have defaulted within 3 years of entering repayment.

Among other non-profits the rate was less than 8% which is less than one-third of the rate of converted schools. Among borrowers from for-profit colleges, 15% had defaulted which is also much lower than the rate of recently converted schools.

For-profit colleges as the Senators wrote are reorganizing themselves as non-profits then entering into third-party contracts with for-profit entities often operated by individuals in charge of the former for-profit college.

CHAIRMAN KEISER: Wrap it up.

MS. WANG: I will wrap up. These entities appear to be taking advantage of opportunities to create a tissue-thin veneer of non-profit and tax-exempt status that allows the for-profit entity to continue to run and manage key operations of the newly formed non-profit.

CHAIRMAN KEISER: Thank you.

MS. WANG: The Senators wrote to NACIQI.

CHAIRMAN KEISER: Thank you, thank you.

MS. WANG: TECUS concurs with the Senator's recommendations that they wrote to NACIQI on, thank you.

CHAIRMAN KEISER: Questions?

MR. WOLFF: Not a question just a clarification. Did I understand you say -- I was trying to track the data as you were presenting it that the completion rate or the default rate was greater with the non-profits that converted, is that what you --

MS. WANG: It is actually greater at recently converted non-profit schools. And it’s not the completion rate -- I didn’t calculate the completion rate. What we calculated was the default rate -- a 3-year cohort default rate. It was 8% at non-profits across the board, 25% at schools that had recently converted to non-profit.

MR. WOLFF: Thank you.

CHAIRMAN KEISER: Thank you, Kathleen?

MS. ALIOTO: Do you and other people here think that the principal reason for this is that people just want to make money or is it the fact that educating people is a lot tougher than some corporate thinkers might have thought and they wanted to go into it because they didn’t think public education was doing the job.

But in reality it’s a tough job for all of us. It’s tough and it’s tough when you’re working with people who have been systematically excluded from the American pie to bring them back into the fold or to allow them to be in the fold. I think a lot of people go into education because they really want to improve the lives of other people but it's so tough I just think these corporations aren't doing that great a job, that's all.

MS. WANG: I think that it is quite tough. I think that the data that I shared today speaks for itself.

MS. ALIOTO: Yeah.

MS. WANG: There are schools that do a very good job of serving low-income students, of serving PELL students.

MS. ALIOTO: Yeah.

MS. WANG: Unfortunately, like I said the completion rate at for-profit schools is just too low and unfortunately based on the numbers we crunched last night, the 3-year default rate at converted non-profit schools is exceptionally concerning and the data I believe speak for themselves.

MS. ALIOTO: Thank you.

CHAIRMAN KEISER: Thank you very much. Our next presenter is Yan Cao -- I hope I said that correctly, a Fellow at the Century Foundation.

MS. CAO: Members of NACIQI, thank you for this opportunity to provide comments concerning for-profit institutions converting to non-profit entities in order to avoid regulatory scrutiny. My name is Yan Cao, I'm a Fellow at the Century Foundation. Prior to that I represented and reviewed the experiences of hundreds of students who had been defiled by schools like Corinthian and ITT.

I want to highlight what happens to students when conversion from for-profit to non-profit status occurs. Wright Career College was an early example of a covert for-profit college. In 1994 its sole shareholder created a non-profit, sold all assets from a for-profit college into the non-profit which he controlled as a trustee.

After the conversion he continued to operate the non-profit as a for-profit school and personally shared in the profits -- profit driven practices cloaked with the non-profit label. The patterns are familiar today and they proved disastrous for the students.

According to representatives from former students Wright Career College emphasized in its non-profit status and in its marketing and recruitment materials and that evidence is before you in testimony submitted by Mike Rice. He said that every single business card printed by Wright Career College emphasized two facts that were designed to put students at ease.

One was accreditation by ACICS. The second was non-profit status. Non-profit status was not only a shield from regulations as the owner admitted to the IRS, he sought that conversion so that he would not have to comply with the 85/15 rule which at the time applied to for-profit colleges.

The non-profit status was also used as a sword to attract students and an additional sword above and over what other for-profit colleges could use. I want to share the experience of one student. She says I went to Wright Career College because I was told by the admission's representatives that my credits from my career college would be transferrable.

I was told that Wright was a not-for-profit school -- and not-for-profit school credits would be transferrable. My goal was to become an office manager. It frustrates me that to get the education degree that I wanted and needed to accomplish my goal now cost me even more.

I had to go to another college to get an actual college education rather than a repeat of high school education which Wright called college level. Indeed the credits that she obtained at Wright were not transferrable.

She says I repeated English to go to Comp 1, basic math into College Algebra and a computer course at Tulsa Community College so I could progress further into more advanced courses.

When I was at Wrights and I was having questions about my math I googled a problem to find out that we were at junior high level in the college course -- we were at the hardest part of the book. I was so surprised and disappointed that I was spending this money just to get a lesser education than I thought I was.

I did graduate with an Associate's of Applied Science, emphasis in business administration but it means nothing because I do not have the education to back it up. I urge the folks around this table to say that one experience of my career college, one experience of a student going over $20, 000 into debt to get a junior high level education is enough.

That these conversions allow colleges with a profit seeking motive not only to continue to engage in the predatory practices that we saw at schools like Corinthian and ITT, but also -

CHAIRMAN KEISER: Please wrap it up.

MS. CAO: But also to tell students that they are non-profits in that recruitment process, thank you.

CHAIRMAN KEISER: Thank you, questions -- Anne?

MS. NEAL: Art, I just want to say I apologize that

I have to leave early today and before I do I just want to say how distressing I find this overall conversation in so many ways. I mean I think if we look at the national assessment of adult literacy which the Department of Education issues periodically which shows that students can't compute the cost of raw office goods, that they are unable to compare editorials and here we are today talking about fraud, abuse, governance, corporate structures, tax status -- which are not words in part of the Higher Education Act vis-à-vis accreditation.

And I think this underscores for me the problem with the accreditation system that we have. It is a peer review -- it was set up as a peer review system and it was designed to look at educational quality and provide guarantors of educational quality.

The concept that faculty and administrators were authorized by Congress to be determining focus of fraud, abuse and interfering in the governance system of our colleges and universities which are largely appointed by accountable governors or are elected just underscores for me how far a-field accreditation has now gone.

And I think in part because faculty and administrators don't want to define quality so it's easier to go and look at all of these other things and I do not feel that this is in fact, what Congress intended nor do I think the faculty and administrators are well-equipped to deal with these very sophisticated corporate finance and other issues which just underscores for me again why I hope Congress and other bodies will look closely at this system and really rethink it.

Because I think our discussion today while interesting and addressing important concerns, is nevertheless not one that is central to accreditation, so.

CHAIRMAN KEISER: Thank you Anne, thank you Miss Cao. The next presenter is Sean Marvin, Legal Director, Veterans Education Success.

MR. MARVIN: Thank you. I'm Sean Marvin, the Legal Director at Veterans Education Keys to Success. VES is a non-profit dedicated to protecting and defending the integrity of the GI Bill and other federal education programs for veterans and service members.

VES was founded in 2013 soon after a Senate investigation uncovered rampant fraud by a member of for-profit colleges. Unfortunately this was just the latest surge in fraud targeting GI Bill benefits and veterans and has occurred for decades.

Since 2013, VES has been contacted by nearly

4,000 veterans and service members about various types of fraud that they've encountered at their school. Nearly every complaint that we have received has concerned a for-profit school.

Those veterans allege fraud concerning almost every aspect of services that particular colleges claim to provide. Those veterans have told us about how their school lied about the true costs of its tuition, whether the GI Bill would cover the entire tuition, whether the other schools -- or whether other schools would recognize that school's credits, the quality of its programs, its graduation rate, whether its graduates are eligible for certain jobs, the career assistance that the school would provide, the school's job placement rate and the likely future earnings of the school's graduates.

These are veterans who have served our country, earned education benefits in return for their service, many of whom have entered the military in order to receive those education benefits and who've been ripped off by schools that treat them as just another way of making money.

Given the history of fraud in the for-private sector, veterans organizations like VES are skeptical about whether efforts by for-profit schools to convert to non-profit status are simply a way for companies to avoid regulations that apply to for-private colleges and still reap the financial benefits of for-profit ownership.

Along with the other concerns that have been raised today, it’s also concerning the for-profit colleges that convert to a non-profit status would in many cases place themselves beyond the reach of Federal Consumer Protection laws governed by the Federal Trade Commission and the transparency requirements in federal securities laws along with recommendations already made, NACIQI should require that any for-profit school that converts to non-profit status publicly disclose for a certain number of years after the conversion any law enforcement activity taken against the school thereby better insuring that consumers can make informed decisions.

Veterans who have sacrificed for country and have used their hard-earned education benefits should be able to trust that their college that is acting in the best interest of its students and not simply its owner’s, thank you.

CHAIRMAN KEISER: Thank you very much, are there questions -- again, thank you very much.

MR. MARVIN: Also just to inform you your next speaker, Mr. Kamin with the American Legion, informed me that he was not able to make it due to illness. He has submitted written comments and would ask that you consider those.

CHAIRMAN KEISER: Thank you for letting us know. So we are now through the sign-up sheets. The first person to speak on the sign-up sheets are Monica Owens, on behalf of Indiana AAUP's -- I assume that's the American Association of University of Professors is that right?

MS. OWENS: That's right.

CHAIRMAN KEISER: Glad I got that right.

MS. OWENS: Thank you very much.

CHAIRMAN KEISER: Welcome Monica.

MS. OWENS: Thank you, I appreciate it, thank you for your time today. Yeah, so I'm here to deliver testimony on behalf of the Indiana State Conference of the American Association of the University Professors. We'd like to use this time to address the regional accrediting process involving Purdue University and Kaplan, resulting in the establishment of Purdue University Global and to highlight that through the process faculty and students were prevented from adequate opportunities to make public comment to voice their concerns about Kaplan to the HLC and to the Purdue administration.

To the best of our knowledge one single public forum was hosted by the Higher Learning Commission at Purdue's

West Lafayette Campus in fall, 2017. The forum was announced less than 48 hours in advance and hosted in West Lafayette, hundreds of miles from other Purdue regional campuses.

In an effort to work with the HLC to create a more accessible space for a public comment -- Purdue faculty and the Indiana AAUP submitted a formal request to the HLC for an online town hall which the HLC denied.

Purdue faculty and students also requested to register for public comment at the HLC Board meeting in Chicago and were denied and so as a last resort faculty and students began reaching out to individual Board members which resulted in the letter from HLC legal counsel ordering them to stop.

Our concerns about shared governance, academic freedom and an accountability of Purdue Global which we consistently attempted to share with the HCL are as follows. At Purdue Global faculty appointments are contingent contact positions without opportunities for tenure.

Courses are developed under the leadership of subject matter experts, not faculty. Hiring and curriculum decisions are made top-down by management not faculty. Purdue Global is established as a public benefit corporation exempt from open door laws and public records requests and it's Board meetings and its minutes are not open to the public.

Kaplan has been the subject of multiple state and federal investigations over misleading students and misrepresenting job placement results. Even worse, Kaplan historically uses mandatory arbitration forcing students to forfeit their right to sue or join a class action to stand up for themselves.

We don’t want this for our students. In light of these concerns we ask that NACIQI implement the following recommendations: As law professor Brian Galle shows in his testimony regional accreditors should not presume the IRS criteria alone are enough to prove that an organization has achieved true non-profit status.

This occurred in the case of Purdue Global where the HLC left determination of non-profit status up to the IRS. We recommend the Secretary place a moratorium on federal approval of conversions to non-profit status until the Ed Department’s procedures can be updated to reflect on the reliability of IRS determinations.

We also recommend that NACIQI work with accreditors to ensure that a robust inclusive process for public input is established and all accreditation cases and the federal student aid make public all requests for pre-acquisition review.

We recommend that NACIQI assess whether accreditors are reviewing non-profit colleges and conversion requests to ensure that college governance is not contaminated by contract’s promises to pay or real estate deals that undermine the integrity of the non-profit.

Finally we recommend that NACIQI work with accreditors to ensure that shared governance and academic freedom are central to the accreditation process. Thank you for your time.

CHAIRMAN KEISER: Thank you.

MS. OWENS: Yes?

MR. WU: So I have a question. My understanding of Purdue just from reading is that a non-profit institution acquired a for-profit institution, is that your understanding as well?

MS. OWENS: I’m not a legal expert so I don’t think I can really speak to that but Purdue University as far as I understand set up an LLC and then Labatt Kaplan so -- but there are other people here who can answer those questions in a much more accurate way.

MR. WU: That’s fine, I have a different question then about your views. I understand your views are not only about this conversion issue, but more generally about other types of structures including LLC's, public benefit corporations, et cetera. In other words, your views go beyond just conversion -- would that be accurate?

MS. OWENS: So I'm here representing Indiana State Conference of the AUPA and they're very concerned about the entire accreditation process and the way that your governance in academic freedom are not central to this decision and of course everything that you just mentioned is a part of why academic freedom and shared governance were not central to this decision.

MR. BOEHME: Thank you so much and I appreciate your comments and I'm going to be quick because I know we're running out of time but believe it or not we actually meet twice a year and we often -- and I encourage people who just come for the political hot topics, to also come to NACIQI because we deal with the challenges of -- if I'm hearing you correctly, a lack, of transparency and a lack of often times a complaint process from accreditors.

HLC which I have many disagreements about and I would again encourage some new people here to NACIQI to come join us in part of this conversation is that what I have been fighting for for the past 5 years is that accreditors are often not up to the task.

And I think what I also find is concerning about this conversation is that it's a struggle enough for an accreditor yesterday to tell us how many actions they took against their member institutions and yet we're expecting to have them do fraud. I think defrauding students is a terrible thing -- I'm the student member.

So if I'm hearing you correctly HLC through this process was not transparent and they were not open to complaints about this process -- is that correct?

MS. OWENS: That's correct.

MR. BOEHME: Okay.

MS. OWENS: Faculty opinions were completely disregarded.

CHAIRMAN KEISER: Bobbie?

MS. DERLIN: Just a quick point. There are procedures to act against you could say -- act against, or pursue complaints with a higher learning commission and I would just encourage you to pursue those with diligence and gusto.

CHAIRMAN KEISER: I'm curious, are you suggesting that the recommendations that the other folks have recommended about apply to Purdue University which is a public university?

MS. OWENS: They apply to Purdue Online Global.

CHAIRMAN KEISER: But Purdue Online Global is part of Purdue is it not, which is part of their 501C3?

MS. OWENS: I'm sorry what is your question?

CHAIRMAN KEISER: Well there are suggestions that there will be additional regulations and additional oversight to for-profit non-profit conversions and I assume you felt that this was one of those so should Purdue University, a public university be held to the same kind of additional oversight as those that are recommended for some of the other conversions?

MS. OWENS: I think the recommendation being made is that first of all that the HLC or any accrediting body should not be reliant on the IRS criteria alone to determine if an institution is indeed a non-profit.

So that should have been the first roadblock to Kaplan even being allowed to convert to a non-profit and become part of Purdue.

CHAIRMAN KEISER: But it's Purdue that is the non-profit that's in the issue. Is Purdue a non-profit or a public, you know, I assume it operates under 501C3?

MS. OWENS: I think it actually technically does but it doesn't need to because public higher Ed institutions technically don't need to file for 501C3 but for some reason they have. In any case I'm not qualified to answer these questions -- these are very specific legal questions that I'm not here to speak to. I'm here to speak on behalf of faculty experience and you know, shared governance and being really side-lined in this process in order to prioritize for-profit institution which is Kaplan.

CHAIRMAN KEISER: Thank you very much. The next speaker -- let me get my glasses, is Josh Lenes, is that correct? Josh Lenes on behalf of Eastern Michigan AAUP which is the same organization, welcome Josh.

MR. LENES: Thank you Mr. Chairman, members of the Committee. I'm here to deliver testimony on behalf of the AAUP Chapter representing the 600 faculty at Eastern Michigan University, a public institution to shine light on a related issue of importance to NACIQI -- private agreements entered into public colleges and universities.

Since 2016 the administration and the Board of Regents at Eastern Michigan University, a public institution, have entered into agreements with several private for-profit firms to provide services that were previously conducted by the university and its employees.

These include dining services, the parking system, much of the work of the benefit's office and online program management. It's our view that these contracts with private entities have negatively affected the university by undermining shared governance, weakening revenues and shifting the focus of the institution away from the public good toward private profit.

All the decisions to privatize were made without consultation with faculty bodies despite the fact that the union provides faculty the right to participate in institutional governance including decisions about curriculum development and utilization of resources.

Although the administration has justified privatization as necessary given declining state appropriations and a dip in enrollment we are concerned that privatization is contributing to a financial crisis.

Since the concession on dining and parking entail the university's foregoing future revenues in these areas for long periods -- 13 and 35 years respectfully, in these operating budgets for the foreseeable future it will be much more dependent on tuition fees than it has in the past.

Privatization has also brought about a shift of the focus of the institution away from the public good to the maximization of profits of these entities. Decisions on operations are no longer made with the need to the students and community in mind. For example, food costs on campus have increased dramatically although many of our low-income students cannot afford to feed themselves.

The parking company has significantly reduced the amount of handicapped parking spaces, increased ticketing of students and members of the community and will undoubtedly continually raise fees for the next 35 years, thus adding to student debt.

In its recent review on reaccreditation of the university the HLC appears to have been aware of just one of the contracts. It certainly did not consider whether privatization is undermining the mission and integrity of EMU. The oversight is puzzling given that the mission of the HLC is to serve the common good by assuring and advancing the quality of higher learning.

Given this, we're recommending to NACIQI that regional accreditors closely review these agreements that non-profit educational institutions enter into with for-profit companies to better understand who is profiting from these agreements and to ensure that shared governance, academic freedom and instructional quality are not undermined by these agreements. Thank you for your time, I'll be happy to share additional documents if necessary.

CHAIRMAN KEISER: Thank you very, very much -- questions? It's hard to believe that we're at our last presenter and that's Antoinette Flores for the Center for the American Progress. I hope I got that Antoinette because it's not clear here -- is it Antoinette, okay great thank you, welcome.

MS. FLORES: Thank you members of the Committee for having me and thank you for taking up this important topic. This isn't the first time that rapid change in industry has threatened higher education and it's not the first time accreditors were ill prepared.

A decade ago it was accrediting shopping when for-profits purchased struggling non-profits and the regional accreditation that came with it only to radically change the college. Take for example Bridgepoint Education's takeover of Ashford which was followed by rapid expansion online at a significant profit only to later see the college itself shut down.

In retrospect the head of its accreditor, HLC, expressed regret stating that the Agency had been hoodwinked. It's critical that accreditors are asking the right questions and adopting strong standards before these changes happen, not when it's too late. But to date there are no clear standards or best practices upon which these decisions are being made and there is very little public transparency to ensure decisions are in the best interests of students.

There is one exception -- ACCSU recently proposed strong changes to its standards that would reject these types of conversions if they are tainted by financial complex of interest. The message to their membership is clear -- protecting students and ensuring quality is paramount.

This is just a start but it's an obvious move and one that others would be wise to follow. But where are the rest of the agencies -- all over the place. To my knowledge no others have published standards setting the rules for these decisions. Nowhere is this confusion more clear than the conversion of EDMC colleges to the Dream Center which required separate approval of 5 regional agencies.

Each came to a different decision for different reasons and with varying concerns but little transparency into the process. And another concern -- currently conversions are considered substantive changes. You heard from the Department this week who's considering deregulating substantive change, requiring accreditors to do less -- a recommendation that NACIQI has supported.

We are walking a dangerous line that requires bold action. I encourage NACIQI to recommend strong protections for students and that you consider the actions accreditors take in your reviews.

In the meantime, the question for accreditors is whether they're going to shape the change and prevent another cautionary tale or stand idly by and let it happen, thank you.

CHAIRMAN KEISER: Thank you very much, George you're up.

MR. FRENCH: Could you reference again NACIQI's support of basically the relaxation of substantive change with accreditors -- when did that occur, are you familiar with that Miss Jen?

MS. HONG: There's some language in that -- my laptop is dead so I can't work it.

MS. FLORES: I can mention it -- NACIQI issued recommendations on the Department of Education's plans to deregulate. One of those recommendations was to consider substantive change and I believe NACIQI's language was in the case of high-performing institutions but I'm not sure that we have a definition of high-performing institutions. For example, would Purdue be considered as a high-performing institution and just, you know, not have to go through a review process? That's an open question.

CHAIRMAN KEISER: Great, any other questions, Bobbie?

MS. DERLIN: I just want to make sure I'm understanding -- I think Antoinette, you're referencing our language in support of a risk-adjusted strategy for accreditation and I want to make sure I'm understanding that you are not in favor of this because you think it's giving some institutions a buy -- am I correct?

MS. FLORES: No, I'm absolutely for a risk-informed decision but there was another part of the recommendations that included substantive change and allowing accreditors to waive through institutions if they were "high-performing".

MS. DERLIN: Thank you.

CHAIRMAN KEISER: You folks are standing in between us and a break but that's okay, Ralph and then Claude because I may not last until the end of your presentation.

MR. WOLFF: As a member of the sub-committee that worked on that Antoinette, just to say we never considered this issue in preparing for the recommendations and the recommendations dealt with more around un-substantive change -- the requirement that additional locations -- it was on a wholly different set of issues with respect to substantive change.

But the sub-committee never engaged the question about the conversion of for-profits to non-profits and its relationship to substantive change.

MS. FLORES: Yet, can I respond to that -- no?

MR. PRESSNELL: Go ahead because I mean I wrote it so he accurately depicted that.

MS. FLORES: You know I've done a lot of asking agencies themselves what exactly they're referring to when they say we need to roll back substantive change regulations and I haven't heard a good answer and my concern is that the Department is going to roll back regulations and provide broad authority to waive conditions in the cases of institutions and I would ask NACIQI and the Department to consider all of the ramifications in where this would apply including it would apply in these scenarios where accrediting agencies no longer have to look at substantive change.

MR. PRESSNELL: Again, we never said that they would no longer look at it so okay.

CHAIRMAN KEISER: And Susan?

MS. PHILLIPS: Antoinette you've looked at a number of the larger agencies and their substantive change policies. As you look at those what do you see in terms of accreditor's capacity to address the issues that we're talking about today?

MS. FLORES: So the issue that we're talking about today falls under substantive change and there are very broad guidance on where this falls. I think it falls in line with change in ownership and as far as what the agencies themselves are considering, or what the guidelines are -- that's not public and there's no transparency into that which is a concern.

CHAIRMAN KEISER: Okay, thank you very much Antoinette.

MS. FLORES: Thank you.

CHAIRMAN KEISER: We are at a very important point because we're going to take a 10 minute break. We will reconvene exactly at 11:15 -- exactly. We will have then a discussion on this issue at which point we will finish that discussion and then Bobbie Derlin will give a report on her Committee on big data or whatever data it is and then we will hopefully be able to adjourn and then get you guys to your airplanes, thank you.

(Break 11:04 a.m. - 11:17 a.m.)

CHAIRMAN KEISER: Okay, we're going to get started please. We have a deadline. Committee members please take your seat. Okay, 1,2,3,4,5,6,7,8,9,10 -- we are back. If you wonder why I'm counting is we are required to have a quorum to be in session so we do have our 10 of 18 so here comes Ralph for number 11 -- we're in great shape.

Okay we have some time set aside for discussion on this matter. Anybody who would like to begin with it, Claude and then Susan?

MR. PRESSNELL: Well first of all I think it was a very important discussion, you know, that we're having and the question was whether or not we can give it full due in a short period of time that we have remaining.

But you know, there are some good for-profits and there are some bad for-profits - there's no doubt about it. And I think that what -- and there are good non-profits and there are some bad non-profits, I get all of that. I think that what we have heard today and what we've read through the submissions that were given to us and what we read in the media -- we've got a problem.

And we have a problem with really consumer protection and protecting these students. There are institutions out there that are predatory and there probably are some of them that are using this game of switching from for-profit to non-profit as a maneuver and we have got to look at it.

I think this is such a big discussion that our scope -- and our scope is rather narrow in that discussion because this is a discussion that should include the IRS. It's a discussion that should include state governments -- the whole triad and the complexity of the triad, right?

I mean you should include FSA in how they audit the student financial aid side of it. It should, you know, it should look at state audits, it should look at all of these things. It should look at IRS audits and I do believe the ball is being dropped and maybe being dropped maybe simply because it's such a complex issue.

And accreditors have a role in this too. And so I mean I'm glad we're having it. I'm a little bit concerned that we just have a very short period of time to address it and I know that NACIQI has a small lane in which to address this.

I think we should address it and I think we ought to have some careful thought put into what we recommend to the Secretary on this so I'm not -- I didn't make all those comments to say well it's somebody else's job -- no I think it's our job to do it but I think it's also far more complex than just a discussion in this room here today.

CHAIRMAN KEISER: Susan and then I'd like to say a couple of things.

MS. PHILLIPS: Well I would absolutely echo that very eloquent plea for attention broadly. We definitely do have a problem and in many ways it's a failure of the triad and its many manifestations.

I know that in our lane we do have the review of the substantive change policy -- that's where that squarely lands and I'm aware in the course of our discussions -- gosh for the last 8 years I don't believe I've heard anybody -- any of the staff or us talk about how substantive change was handled, what the policies are, whether there are any issues there.

And I wanted to at least have a quick update if we could from the staff and maybe this is Herman, about what is -- what is seen there when substantive change is reviewed when the staff looks at that, what is it that you look at and how -- how do you see this issue in that review?

MR. BOUNDS: You know the regulations are pretty -- I mean they're pretty non-descriptive. It just says that you know, the agencies must have a policy for the approval of substantive change and when we look at an example of an agency applying a substantive change policy it's merely just to make sure that they follow what they say they do and they give us documentation whether its, you know, some may require site visits, some may require a paper review, but it's really of the agency to determine what that is and we don't really you know, we really don't say well you haven't done enough.

It's their policy and how they -- you know how they want to apply it and what they think is proper.

MS. PHILLIPS: So the -- just to clarify, the review process only evaluates whether there is a policy and it is applied?

MR. BOUNDS: Where there is a policy and whether it's applied.

MS. PHILLIPS: So in some ways this is similar to the student achievement, you know --

MR. BOUNDS: Absolutely.

MS. PHILLIPS: How enough is enough?

MR. BOUNDS: Absolutely.

MS. PHILLIPS: And that threshold question isn't something that is reviewed?

MR. BOUNDS: That's correct.

MS. PHILLIPS: By staff and it certainly hasn't been reviewed in part of our conversations.

MR. BOUNDS: That's correct.

MS. PHILLIPS: Or our conversations here.

MR. BOUNDS: That's correct.

MS. PHILLIPS: Well there's a first point of question -- an avenue for something in our wing that we could take a look at more closely.

CHAIRMAN KEISER: I'm going to make a comment then Brian, then Ralph.

Again I want to thank everybody for being so -- and John, sorry, it's hard to keep you guys all -- just to thank everybody for being so professional. This has been a very I think important and very enlightening discussion.

I do want to remind people that this is not something new. That institutions have gone from for-profit to non-profit from non-profit to for-profit, from non-profit to public and I'll give you a couple of examples.

One of our members who is not here to defend himself but Southern New Hampshire University was founded in 1932 to A.B. Shapiro, it was a family-owned school. In 1968 they went from for-profit to non-profit. Johnson and Wales University is a very well-known institution based out of Providence, Rhode Island was founded in 1914 and 1963 became non-profit.

Interesting the person from the Independent Colleges and Universities from Iowa -- an institution called AIB College of Business was founded in 1921. It became non-profit in 1941 and in 2015 became part of the University of Iowa system so you had a for-profit become non-profit and then became public.

Then Baker College in Michigan there’s somebody else from Michigan here -- was founded in 1911 and it became non-profit in 1977. And there are many, many instances where institutions found to the benefit of their students to make that transition from not-for-profit to for-profit.

That doesn’t mean there may not be problems within the system and we’ll be glad to discuss that. I’d be glad to answer any questions if anyone had about ours and I can tell you that I’m very comfortable in the discussion and, you know, I think certainly what we did was appropriate, effective, with the whole lot of legal counsel, a whole lot of money spent to do it right and we did it right.

And for 8 years we’ve been operating in a non-profit. In fact, the non-profit has been operating since 2002 and we with Keiser University under that non-profit since January 2011 so

I just wanted to bring that attention and Brian you're up.

MR. JONES: Thank you Art for that history and I agree that today's conversation was really illuminating and I commend all of the speakers today. I learned a great deal.

And, you know, again I certainly have the view as I said before that you know, governance matters and I do think that we have to be cautious about conversions where there might be a lack of transparency or where governance can create incentives on the interest of students so I certainly agree with all that.

I do think thought that there was an important element missing in today's conversation and it kind of gets to Susan to your point and I do think that we did not really hear from the Department. We haven't, of course, heard from the regional accreditors who are in fact, reviewing these things today.

I can't speak to the process of conversion. I've not gone through one. When I was at the Department I wasn't involved in any but I am currently in the midst of a change of control process as folks around this table may know.

Our parent company, Strayer Education is merging with the parent company of Capella University, Capella Education and we have been going through a pretty rigorous process but with the Department and with Capella's accreditor HLC and the rigor that has been brought to that change of control process, that sums a change I think really could be instructive to us as we think about what our recommendation might or might not be and how we might improve those processes.

And you know, I have nothing but high regard for the folks at the Department who have put us through our paces and the folks at HLC who have done that as well. And I do think before we get to some place of making some decision about what to do with what we heard today, it would be useful for all of us I think to better understand the nuts and bolts of what is in place today at the Department.

MR. ETCHEMEDY: That’s fine, let me say a few things. I agree with the final point that Brian was making. I think that what we have here is certainly a failure of the triad and Claude is very eloquent about how this really should be a discussion being had at the broader level involving more participants.

And Anne really in effect said a similar point. She said that basically this is not something that accreditation should be doing or that the accreditors should be doing, that they’re not really equipped and I actually agree with that as well.

However, we have a failure of the triad and if nobody else is doing something we need to figure out what we can do if anything to try to fix this -- improve the situation. I think if nothing else it's a consumer protection issue, it's a transparency issue, advertising yourself as a non-profit when in fact you're actually a for-profit structure is a failure to the students.

Now I think that NACIQI is not just focused on accreditation. NACIQI is -- as I understand it, a National Advisory Committee on Institutional Equality and Integrity. If this isn't the integrity issue, I don't know what is.

So I would hope that we would do something. I don't think that we're prepared to figure out in the next 20 minutes what that something should be and -- how many, 10 -- worse! So I would actually suggest that we form a sub-committee to look at this and produce a white paper recommending the appropriate actions for the appropriate actors, whoever they may be, so.

CHAIRMAN KEISER: Ralph?

MR. WOLFF: Thank you. I would echo that there would appear to be a problem though I don't want to start off by saying there is as much as I'd like to understand for example, there is a case with the Dream Center that the regionals to have taken different actions.

And it's not clear to me on what basis is it inconsistent application. I've been one who has actually implemented change of control policy when I was President of WASC. The law requires that there be a follow-up visit within 6 months.

But I would say that the follow-up visits typically -- and I can’t say what it would be in the Dream Center case or in the Grand Canyon University but typically our very narrow and very narrowly focused and they may not be as substantive as maybe required.

So I’m very interested in more information to ascertain what is the nature of the problem and what might we address in our narrow role in the application of inquiry with accrediting agencies with respect to their application of the substantive change process that would seem to be our remit.

So I would support the idea that we gather more information and try to understand how is this being approached? I would say that I appreciate the presentations that were made and they raised for me real questions about interlocking directives about follow-up information about the specific -- about data -- whether these are looked at by accreditors after a change of control.

I think there are issues for us to look at but I don’t want to start with there’s a problem to be fixed I’d rather start with what are we looking at? What is the nature of the problem? How much of this is accurate?

I do know that there are committees that review this as part of the substantive change at WASC -- it's called structural change to give it even more review. And so I think an inquiry, if it can be done, with some of the accreditors of how they've addressed it as part of a sub-committee I would endorse the view and come back and report and even talk with the Department.

But just having a policy is not enough. I mean having a change of control policy. I think we should expect more.

CHAIRMAN KEISER: Bobbie then -- no I'm sorry, Simon, then Bobbie, Bobbie?

MS. DERLIN: I'm first, okay. I want to echo the remarks of my colleagues. I think it is important that because of time limitations and also because we have a lot of members who are unable to be here at this time, that we establish a means to continue this conversation, that we specifically explore our prior recommendations on substantive change policy and how we might want to consider changes to those policy recommendations for the future.

I think we should include opportunities to hear from others about accreditors. I do think there is -- I do think this is specifically related to what we talked about as our lane or the narrow lane. I mean substantive change is part of the accreditation regulation.

And I think we need to learn more. And I don't think we have enough time to do that today, but I think we should have a definite plan, whether it's a sub-committee or some other strategy I think there also needs to be a plan for us to have a whole group conversation about the topic in general, thank you. Oh and thanks to all these presenters and people who sent us material it was very helpful.

CHAIRMAN KEISER: Simon?

MR. BOEHME: Thank you Chair and thank you to the speakers today for your advocacy, particularly for standing up for students. I think one of the core elements of NACIQI is to protect students and often times when we look at the triad, we see everyone pointing fingers at each other and guess who's left behind -- students.

I think it's through these kinds of comments and through your ideas and through your research that we're able to make the system better so students can really have a fair shot to get to the American pie as my colleague, Kathleen says, and I appreciate that. And I could not agree more with Claude's statement that this is an issue.

But to me and our role in NACIQI is that it is so important that accreditors be transparent and so there are all sorts of corporate ownership issues from for-profit to non-profit, non-profit to whatever it is -- we need to have a better understanding of the complexities of what accreditors do.

I give accreditors a hard time and I'm very over simplistic but they do have a very hard job. I think when they're looking through these conversions I don't think they're equipped. I tend to agree with John -- I'm not sure if it falls with the accreditor's responsibility.

I think this is a failure of consumer protection. Primarily there should be statutory changes again in higher education to protect students and I think accreditors and the Department and state government should be given greater authority to protect students in that kind of way.

But I really resonate with Ralph as well and Bobbie that we need to learn more. I think having experts come before NACIQI to give us a better understanding and it sounds like there was some research being done. I would like to have more information to better understand that because while I give regionals a hard time and I often times think that they may not be up to the challenge, I think there is this real effort now being done and we saw it in the WASC presentation -- Northwest is getting a new leader and people are sitting and listening to NACIQI.

I would like to have that kind of transparency so we can ensure that students are protected.

CHAIRMAN KEISER: Frank?

MR. WU: I'm going to make a motion. It is that NACIQI set up a sub-committee pursuant to the statute in the regulations to look at the issue of substantive change, including but not limited to conversions of institutions from for-profit to non-profit status.

I want to mention two aspects of the motion. One it's directly tied to the statute regulations so it's expressed. And if the sub-committee determines that actions should be taken that are beyond the scope of what NACIQI could do, it should go ahead and say that recognizing NACIQI's limits.

In addition it's not just about the for-profit conversion issue but it's more broadly about substantive change, that's my point.

CHAIRMAN KEISER: So there's a motion, is there a second? Second by George French -- further discussion, Bobbie?

MS. DERLIN: Frank, is it possible that you could also include in this motion that there will be a future opportunity for the full Committee to learn from accreditors and others on these issues of substantive change?

MR. WU: Sure I would think that when the report was done as with the report you're presenting today that there would be a NACIQI meeting where this would be presented and the Chair and the staff would determine that we would put it on the agenda, there'd be discussion.

MS. DERLIN: And we think that too -- I just don't want anyone to forget.

MR. WU: I hear you. We're on the same side so if you -- I'll add with the understanding that the matter shall be returned to the NACIQI agenda period.

CHAIRMAN KEISER: Any other discussion? Sensing none, all in favor of the motion raise your hands -- all those opposed, the motion passes.

NACIQI RECOMMENDATION

NACIQI set up a sub-committee pursuant to the statute in the regulations to look at the issue of substantive change, including but not limited to conversions of institutions from for-profit to non-profit status.

CHAIRMAN KEISER: There will be a sub-committee. Jennifer and I will work on getting that appointed, okay --

MR. FRENCH: I have a general question to you. I may have missed it but why is it that we're only having one meeting this year?

CHAIRMAN KEISER: We didn't we had two meetings this year. We had the meeting in February and then the meeting in May. If I'm not mistaken and Jennifer could probably address better but our budget only allows for two meetings a year so we're going to have it at the beginning of next year and then move the second meeting closer to August/September so we spread out.

We've got because of conflicts in December that's what messed it up, okay? We have one more item on the Agenda and I will turn the microphone over to Bobbie.

SUBCOMMITTEE ON DATA

MS. DERLIN: Well, a tough action to follow. This is a report of the NACIQI sub-committee on data. And this Committee was established at our last meeting and we have had one telephone conference call with the members present included me, Claude, Ralph and Jennifer. One of our members who had previously volunteered was unable to participate so we sought some additional members and Paul LeBlanc and Federico Zaragoza have agreed to participate in the telephone calls after this meeting.

We distributed a summary of prior related NACIQI policy statements to the members and we will be sure this information gets to the new members as well. Since the meeting minutes from the February meeting did not include a specific charge for our sub-committee we talked about some of the perspectives and items that would be considered for future discussion.

These included striking a balance between broad policy positions and the pragmatic aspects of staff and NACIQI Committee reviews of accreditors, distinguishing staff review considerations from the Committee review process, how best to consistent examine accreditors to assure the Committee review appropriately reflects that accreditors under review are “doing a good job”, appropriately incorporating the insights from the 2-7-18 and this meeting’s briefings related to how data is used to inform us.

Various success measures to include an examination of the current Department provided dashboard metrics and suggestions for further improvements and last but not least, maintaining a broad perspective on related suggested policy rather than focusing on specific recommendations on particular legislative proposals.

We are also in the process of gathering some additional related information from the financial aid officers who have provided some insights into data that might inform us and that concludes my report.

CHAIRMAN KEISER: Thank you Bobbie, other questions for Bobbie -- very thorough -- thank you. We have come to the conclusion about 10 minutes early. I am shocked. Thank you. Any comments -- any comments from any of the members before we adjourn?

MR. FRENCH: Do we need any action on Bobbie's report?

CHAIRMAN KEISER: No, I don't think we need action do you -- no it's a continuation.

MS. DERLIN: No, the work continues.

CHAIRMAN KEISER: Well then I would entertain a motion to adjourn? All in favor -- I assume you all are in favor. Bye-bye. Thank you for coming and we'll see you sometime next year.

(Adjourned at 11:45 a.m.)