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For-Profit Colleges: What Every Student Should Know

Depending on your source, the reputation of for-profit colleges can look completely different. Advertisements tout them as a great way to improve your job options, but news stories and recent government intervention have turned “for-profit education” into a dirty word. As with most controversial topics, the reality falls somewhere in between the two extremes. Nevertheless, every student that considers getting a degree at a for-profit institution needs to be aware of what they’re signing up for.

While the ubiquity of for-profit education seems to have come out of nowhere in the past few years, the programs have a long history in the United States. The for-profit colleges common in the 19th century played a similar role in some ways to those we have today:

- They were more focused on the professional skills and training that would get students jobs than the generalized education offered at universities.
- They opened up education to low-income students who were interested in bettering their opportunities but unable to afford other colleges.

While these programs have existed for many years, up until recently they served a relatively small portion of the student population. You’ve probably already guessed exactly what changed that: the Internet.

In the 1970’s, less than 1% of all the students taking degree programs attended for-profit schools. By 2012, that number had grown to 12%.

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For-profit schools were some of the first to embrace online learning. They introduced students to the idea of earning a degree at home, on their own schedule, in between job shifts, and in their pajamas, if they so desired. For a while, “online learning” and “for-profit education” seemed synonymous.

That’s changed as more traditional institutions of higher education have embraced online courses, but the popularity of for-profit higher education lingers. Which would be great if the schools succeeded at pulling off the democratization of higher education they boast. Instead, critics have found that for-profit colleges often make things worse for their students, particularly those from low-income backgrounds.

The Problems with For-Profit Schools

For years, any time for-profit colleges have made the news, inevitably it has involved scandal. [Late last year](#), Corinthian Colleges agreed to shut down operations in a deal with the Department of Education after a threat of federal investigation. A 2010 [Inside Higher Ed](#) story took the top three for-profit education companies to task for misrepresenting job rates to prospective students. And [even further back in 2005](#), *60 Minutes* covered lawsuits brought against Career Education Corporation for misleading students about job placement rates.

Scandals in the for-profit education sector have become common and familiar. Each time they make the news, many of the criticisms are the same.

THE FINANCIAL COSTS OF FOR-PROFIT SCHOOLS

So much of the criticism levied at for-profit colleges has to do with money. They’re accused of overcharging students in spite of offering lower-quality education. The College Board’s yearly analysis of the [State of Higher Education](#) found the average cost of tuition at a for-profit school is, in fact, notably higher than that of a private or public nonprofit. In 2013, tuition and fees averaged \$11,093 at public and private nonprofit schools, compared with \$15,130 at for-profit colleges.

In spite of the higher costs, for-profit schools pay faculty members less than their nonprofit counterparts. The average salary for full-time faculty in 2012 was:

- \$82,543 at doctoral public colleges.
- \$62,568 at two-year public colleges.
- \$96,129 at doctoral nonprofit private colleges.
- \$67,333 at nonprofit private bachelor’s colleges.
- And, at the bottom of the pack, \$54,413 at for-profit colleges.

The faculty pay rates aren’t the only gauge of a college’s quality, and it’s possible that for-profit institutions attract some really great instructors in spite of the lower salary. But if the higher tuition isn’t going toward landing better teachers, what are the schools spending it on?

WHY FOR-PROFIT COLLEGES ARE EXPENSIVE

Running a higher education program involves many complicated expenses. However, there's evidence that much of the spending at for-profit colleges is going to costs that don't directly benefit students, namely advertising and lobbying.

In 2012, the University of Phoenix was [the top advertiser on Google](#), spending close to \$400,000 each day. That's a spending habit common amongst others in the industry as well. In 2009, [one study of 15 of the top for-profit colleges](#) found they spent an average of 23% of their budget on advertising, marketing, and recruitment; whereas nonprofit institutions averaged less than 1%.

The clear implication is that for-profit colleges base their business model more on convincing students to sign up (and start paying) and less on the education they receive once they've signed the dotted line.

Then, [there's the lobbying](#). For-profit colleges spend hundreds of thousands of dollars on political donations and lobbying to try to influence the legislation that might affect their success. Since federal student aid plays a significant role in the schools' bottom line, they have a clear interest in the actions of the government.

The Typical For-Profit College Student

The demographics of the students that typically enroll in for-profit programs make the higher price tag more of a problem. Many of the students the schools target and enroll are:

- **Low income.** The [Institute for Higher Education Policy](#) found that 19% of low-income adults between the ages of 18 and 26 were enrolled at for-profit institutions, a rate that is nearly four times the 5% representation of higher income young adults.
- **People of color.** During the recession, [black enrollment at for-profits](#) more than doubled, to the point where the top schools graduating black students in 2011 were the University of Phoenix and Ashford College (both for-profit colleges). The same IHEP report listed above also found a disproportionate number of low-income, Hispanic women represented in the for-profit college student bodies.
- **Military veterans.** Because [military veterans have access to more federal](#) aid than the general population, many for-profit colleges put special emphasis on recruiting them. In the 2012-2013 year, when overall enrollment at for-profit colleges declined, the number of veterans enrolling went up.

The (Other) Consequences to For-Profit College Students

The higher costs of for-profit schools end up being especially troubling for students that find their degrees aren't worth what they thought they would be.

As many for-profit schools have weak reputations in the higher education space, students that try to transfer the credits they received at a for-profit college to a nonprofit one are often told they can't. The [worst for-profit offenders](#) make false claims during the sales process and leave students left to deal with the consequences when they learn otherwise.

Even more troubling, the degrees awarded by many for-profit colleges aren't respected by employers. As a growing number of students graduate and find themselves unable to land better work due to their degree, they default on their student loans.

The [student loan default rate](#) of for-profit students in 2011 was at nearly 20%, close to double that of students who went to public and private nonprofit institutions.

Are For-Profit Schools All Bad?

After reading the section above, you may be thinking that nothing good has ever come from the existence of for-profit education. The criticisms commonly cited make the companies behind for-profit colleges sound like the evil corporations that intend to do more harm than good.

Some critics certainly think this, but for-profit education does have its defenders. For one thing, nonprofit colleges have their own share of problems. High costs and low retention rates plague higher education across the board. For some types of degrees (especially two-year programs), for-profit colleges actually have [higher graduation rates](#) than their nonprofit counterparts.

Defenders also make the case that problems like the higher loan default rate come about precisely because for-profit colleges make education more available to at-risk students. Students who are balancing their classes with a full-time job, or with raising kids, are going in with the deck stacked against them, especially when compared with 18-year olds fresh out of high school, who have the luxury of being full-time students.

Is it any wonder these students have a harder time getting jobs and making their loan payments? For all their flaws, there are a few things for-profit colleges get right.

The Benefits of For-Profit Colleges

People keep enrolling in for-profit colleges in spite of the scandals and the high cost. The aggressive marketing probably plays a role, but students must be finding something in what for-profit colleges have to offer that makes them seem like a worthwhile pursuit.

THEY OFFER GREATER FLEXIBILITY

While some nonprofit colleges are catching up on this and offering more flexible online courses, they still lag behind for-profit options in this respect. Students at for-profit colleges can typically complete courses at their own pace, from any location with Internet, on the schedule that works best for them.

Even if taking courses at the public university nearby sounds great, for students that have to keep working or raising kids while completing their degree program, it seems impossible. The ability take courses in between shifts, and take as long as you need to complete your work, puts higher education within reach for many people who wouldn't otherwise consider it.

This is the biggest benefit and appeal of for-profit education; it's within the reach of all the non-traditional students for whom traditional higher education programs seem unobtainable.

THEY MEET A DEMAND

Community colleges are the closest alternatives to for-profit schools, however many are currently facing overcrowding and funding challenges. The recession started a trend toward more people heading back to school, but the growing costs of four-year colleges drove many of those people to community colleges.

Community colleges in some areas are harder hit than others, so depending on where you live you may face no difficulty obtaining a community college degree. But for those who can't get into the classes they want to take, or can't get any attention from an instructor due to the competition from so many other students, for-profit programs start to look like an attractive alternative in spite of the higher cost.

For-profit colleges also receive accreditation from the same organizations as nonprofit colleges. A few even made it onto [PayScale's list of colleges that offer ROI](#). They've been filling a role for students that other institutions of higher education have failed to meet.

What these colleges do is important. Expanding educational opportunities to more non-traditional students who want better professional options is an important goal.

The problem is that, generally speaking, for-profit colleges haven't been doing a great job at that goal. For too many students today who need what for-profits *seem* to offer, they're a bad deal. Some forces are working to change that though.

The Future of For-Profit Education

The scandals of the past few years have taken a toll on the success of for-profit colleges, but not to a degree that has taken them off the higher education map entirely. A few companies have [filed for bankruptcy](#) or been challenged by government intervention, but the for-profit higher educational market is still strong.

THE CURRENT STATE OF FOR-PROFIT EDUCATION

The explosive growth the industry saw in the early aughts has slowed down in the past couple of years. While [enrollment at for-profit colleges](#) quadrupled between 2000 and 2010, between 2010 and 2012 all the bad press brought the numbers down by 12%.

Tuition isn't the only source of profit for these schools. Most of them are also publicly traded. The industry has seen its ups and downs on the stock market over the past few years, often influenced by which political party is in office and announcements related to government regulations.

After a [couple of years in decline](#), 2014 saw the stocks of for-profit education companies have a [bit of a resurgence in public \(or at least Wall Street's\) opinion](#). But their success on the market is very much at the whim of the moves the government makes in the sector.

GOVERNMENT INTERVENTION

As long as a for-profit college is accredited, students can apply for federal aid to help cover the cost of attending. As low-income students and veterans are eligible for larger amounts of aid and, as we've already established, they make up a large portion of the for-profit student population, the government ends up funding a lot of for-profit education.

This keeps the state of for-profit education on the radar of politicians, which in turn keeps a lot of lobbyists employed by the for-profit college industry. In spite of that investment in government contributions and lobbying, the for-profit college industry has been challenged by new government regulations in the last year.

Government subpoenas against for-profit colleges due to misleading advertising are nothing new, but in the past have been focused on one company at a time. New legislation in 2015 tackles the industry as a whole with what's known as the "[gainful employment rule](#)."

The gist is that any for-profit college that receives federal funding must be able to demonstrate that their programs prepare students for gainful employment. The government will judge whether or not they've met that standard by looking at metrics like how their student loan payments compare to their monthly earnings.

Even more recently, the Obama administration announced a [proposal to make the first two years of community college free](#) for students that keep up a 2.5 GPA. Whether or not that plan will come to fruition is still up in the air, but if it does, it would surely draw many of the students most likely to attend for-profit colleges away from them and toward community college.

In short, if for-profit colleges continue down the path they're on now, they may not have much of a future. But if they evolve to better meet the needs of current students and appease the governmental powers currently challenging them, they may just weather all the current storms.

What All This Means for Students

In short: Do your research.

Don't just listen to what a representative from a college has to say, get online and see what else you can find about the school you're interested in. This isn't just good advice when it comes to for-profit schools, it's an important step to take when looking into any school.

Your education is too important to take chances with – especially if you're counting on it to turn into employment opportunities. Before you commit to any higher education program, do some digging and check their rankings so you know what you're getting into.

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