

A report by the Institute for Higher Education Policy

A NEW CLASSIFICATION SCHEME FOR  
**FOR-PROFIT**  
**INSTITUTIONS**



July 2012

## **ACKNOWLEDGMENTS**

The Institute for Higher Education Policy is grateful to the staff who contributed to this report. In addition, we would like to acknowledge the assistance of Tressie M. Cottom (Emory University), Sara Goldrick-Rab (University of Wisconsin-Madison), Tia T. Gordon, Gregory S. Kienzl, and Alexis Wesaw, who contributed to the development of this report, as well as USA Funds, whose financial support underwrote this work. The opinions expressed in this publication do not necessarily reflect the views of USA Funds.

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# EXECUTIVE SUMMARY

For-profit institutions are more visible today among policymakers, researchers, and investors, due in large part to the sharp rise in the number of students attending them over the last decade. From 2000 to 2009, enrollment in the for-profit sector tripled while enrollment in the public and not-for-profit sectors increased by less than 25 percent. By 2009, for-profits made up 43 percent of all postsecondary institutions in the United States and enrolled nearly 10 percent of all undergraduate students. Clearly, it is crucial to understand this sector and the ways in which for-profits contribute to educating students.

For-profits are often quite different from their counterparts in other sectors. For example, they are smaller in size, less likely to offer degrees, and more likely to be located in metropolitan areas than institutions in other sectors. Most (90 percent) of for-profits have less than 1,000 students, a majority (62 percent) are non-degree granting, and most (86 percent) are located in metropolitan areas. Students attending for-profits are more likely than students in other sectors to be older, female, non-White, independent, and first in their family to attend college. Yet there is also wide variation within the for-profit sector, from small cosmetology schools to local campuses specializing in business or technology to online universities offering a wide range of degrees. Capturing this diversity is essential to understanding the sector—and one way to do so is a classification scheme that can be used to compare institutions and the students they serve.

Many classification schemes have been used to group postsecondary institutions, usually based solely on institutional characteristics such as size, degree programs, and student demographics. While the characteristics used in existing classification schemes are acceptable for the public and private not-for-profit sectors, they do not capture the uniqueness of for-profit institutions, causing the sector to be treated as monolithic and broad strokes are used to describe for-profit institutions and students. A multifaceted framework to reflect the diversity in the for-profit sector is needed. To that end, this report describes a new classification scheme solely for the for-profit sector that includes criteria that are different than those used in existing schemes—the markets that for-profits operate in, institutional specialization, and the ways in which students engage for-profits.

The classification is based on three multiple criteria:

1. The market-level dimension measures the growth of for-profit institutions in selected educational markets as well as the relative affluence of those markets;
2. The institutional-level dimension captures the institutional orientation of for-profits while also taking growth into account; and
3. The individual-level dimension focuses on the enrollment behavior of students at for-profits, given the institutional niche of the for-profits they attend.

Each of these dimensions can illustrate snapshots of the for-profit sector, showing that for-profit growth has not been uniform—either by geographic location or institutional specialization—and for-profit students use the sector in novel ways. For example,

- Nearly one-third of metropolitan areas have experienced above average enrollment growth in the for-profit sector in the past decade, and one in seven of the nation's poorest metropolitan areas has seen a particularly sharp rise in for-profit enrollment.
- Most (66 percent) for-profit institutions are comprehensive—meaning they offer a range of degree and certificate programs and serve both full-time and part-time students—and this type of institution is dominant in metropolitan areas that have experienced above average for-profit growth.
- And of the students who attended a for-profit institution for at least one semester, 70 percent stayed exclusively in the for-profit sector and 54 percent of these students attended only comprehensive institutions.

As a whole, the classification offered in this report allows the creation of peer groups of institutions and students to foster comparative analyses. It represents a new way of thinking about for-profit institutions. However, this is just the first step. The next step is to compare and analyze outcomes using peer groups determined by the classification. The classification may also be used as a lens to examine issues of educational quality, competition, and appropriate policy levers to ensure fiscal transparency. In applying the classification, the for-profit sector can be viewed as a highly differentiated set of institutions rather than as a monolithic sector. This will allow a better targeted set of policy interventions or program supports toward the goal of improving postsecondary education outcomes.

# INTRODUCTION

Classifying postsecondary institutions for descriptive and comparative purposes has a long history. One of the first attempts was the California Master Plan of 1960, which differentiated public colleges based on their mission. Seven years later, the Carnegie Commission on Higher Education was convened to establish a simple classification scheme for most public and private colleges and universities (McCormick and Zhao 2005). Over the next 45 years, the Carnegie classification has been expanded to include a greater number and variety of postsecondary institutions, including public two-year institutions and a handful of well-known for-profit institutions, and now uses size, student characteristics, and the most popular instructional programs as defining characteristics.<sup>1</sup>

In response to researchers and institutional leaders who felt that these characteristics did not adequately capture the full two-year sector, the National Center for Education Statistics (NCES) (U.S. Department of Education 2001) developed a classification scheme that exclusively targeted the sector, including two-year for-profits. The classification used the percentage of total certificates awarded as a measure of labor market connection.<sup>2</sup> Subdividing the two-year sector even further, Hardy and Katsinas (2007) created a classification of public two-year colleges that took into account geography and governance. Both of these schemes (and countless others) have been used by institutional researchers and scholars to group highly diverse institutions along commonly shared dimensions for the purposes of comparisons, but all are inadequate to fully understand the uniqueness of for-profit institutions.

To address this shortcoming, this report describes a new classification scheme developed solely for the entire for-profit sector—four-year, two-year, and less-than-two-year.

This classification adopts the best descriptive elements of the aforementioned institution-focused schemes and advances them in two key directions—*upward* to include the educational markets where for-profit are located and *downward* to include the students who attend such institutions. The classification connects the actions of their students to selected environmental and institutional characteristics that are conducive (or not) to the expansion and, at times, entrenchment of for-profit in certain educational markets.

<sup>1</sup> See <http://classifications.carnegiefoundation.org/descriptions/> for more detail on the Carnegie classification, including its methodology.

<sup>2</sup> The NCES report makes a distinction between *Certificate Institutions*, which award only certificates, and *Career Connector Institutions*, which grant certificates as well as other types of postsecondary credentials. The former type of institution provided “specialized training, usually in a single job category or area,” while the latter offered “academic programs with some component of general education that can facilitate transfer to four-year institutions” (p.v). The specialization aspect of these institutions is recognized but treated different in the current classification scheme.

Specifically, the classification is constructed based on the following set of criteria:

- The competition among for-profit institutions in selected educational markets;
- The institutional niche of for-profits; and
- The enrollment behavior of for-profit students.

These criteria support an objective, “stackable” framework to distinguish among for-profit institutions and between the students who attend such institutions. The classification framework allows for both the comparison of for-profits institutions and their students with similar peers.

To provide some background for the analysis, this report first compares key characteristics of the for-profit sector with those from other institutional sectors. The report then describes the multidimensional framework for classifying for-profits and the students who attend them. Finally, the report explains how the classification framework can be used, specifically focusing on the ability to properly compare for-profit institutions and their students with similar peers on a number of outcomes. For illustrative purposes, two real-world examples are provided that highlight how the classification framework can be used to examine differences in key educational outcomes: namely, institutional graduation rates and first-time students’ likelihood of graduating.

Although this report does not address all questions related to the for-profit sector, such as online education, educational quality, regulation, and competition, it provides a framework for future exploration.

# A NEW PERSPECTIVE ON FOR-PROFIT CLASSIFICATION

In 2009, for-profit institutions made up 43 percent of all postsecondary institutions in the United States and enrolled nearly 10 percent of all undergraduate students. Within the for-profit sector, 18 percent were four-year institutions, 31 percent were two-year institutions, and more than half were less-than-two-year institutions (U.S. Department of Education 2011b).<sup>3</sup> During the 2008–09 academic year, 2 million students were enrolled in nearly 3,000 for-profit institutions.<sup>4</sup> This was four times more than in the late 1990s (U.S. Department of Education 2011b), and the growth was faster than all other sectors in postsecondary education.

From 2000 to 2009, enrollment in the for-profit sector tripled while enrollment in the public and private, not-for-profit sectors increased by less than 25 percent.<sup>5</sup>

Yet, as will be shown later, the growth has not been uniform—either by geographic location or institutional specialization—and the ways students are using for-profits are also changing. Knowing where this growth in for-profits has occurred is instructive from a policy perspective, but also knowing which types of for-profit institutions have grown the fastest and how students are engaging with the for-profit sector to fulfill their educational goals are critical. Incorporating all three of these aspects into a single, hierarchical classification scheme offers a truly unique way of looking at and comparing for-profits to themselves.

## RHETORIC AND REALITY

The increased visibility of for-profit institutions, due in large part to the sharp rise in the number of students who are now attending such institutions from a decade ago, has drawn renewed attention from scholars, policymakers, and especially investors. Despite recent headlines and

testimony that have curtailed long-term enrollment projections,<sup>6</sup> the spotlight has brought controversy and very little clarity to the sector as a whole. Supporters tout the for-profit sector's ability to augment current capacity levels and efficiency in awarding degrees to students in a timely manner. Opponents raise concerns over for-profit students' likelihood of economically benefiting from their credential and their subsequent debt load. Yet both sides treat the sector, including the students who attend the institutions and the markets they operate in, as monolithic.

<sup>3</sup> Additional characteristics of for-profit institutions and other postsecondary institutions are provided in **APPENDIX B, TABLE B1**.

<sup>4</sup> More than 500 for-profit institutions were classified as four-year institutions, and more than 900 two-year institutions were for-profit. A majority of for-profits (1,530) were classified as less-than-two-year institutions. This number represents a headcount, not a full-time equivalent estimate.

<sup>5</sup> This growth was primarily due to the rapid expansion of for-profit chains, such as the University of Phoenix and Kaplan University (Deming et al. 2012). For-profit chains operat[e] "in more than one state or ha[ve] more than five campus branches within a single state" (p. 2).

<sup>6</sup> Testimony by a for-profit "whistleblower" in front of the U.S. Senate's Health, Education, Labor, and Pensions Committee is a recent example (see <http://www.insidehighered.com/news/2010/06/25/hearing>). Brennan, Pusser, and Turner (2006) and Kinser (2006) provide an historical context by discussing the financial aid scandals of the 1980s.

## BOX 1

### DATA LIMITATIONS WITHIN THE FOR-PROFIT SECTOR

National analyses of for-profit education are persistently hamstrung by data limitations, which lead to sizeable undercounts of institutions and students. Part of the undercount is due to Title IV eligibility and part to online education. First, for most national datasets, including the U.S. Department of Education's primary dataset focusing on postsecondary institutions, only those that are eligible for Title IV federal student aid programs (such as Pell grants and Stafford loans) are mandated to report. However, many for-profits are not Title IV eligible, and therefore might not be counted in aggregate figures. Using state administrative data from Florida, Michigan, Missouri, Tennessee, and Wisconsin, Cellini and Goldin (2012) calculated a Title IV eligibility-based undercount of nearly 1,200 for-profit institutions and more than 155,000 students. Extrapolating to the entire nation would mean a discrepancy of 4,560 institutions and 670,000 students.

The second important limitation is that determining the percentage of students who participate in online education at individual institutions is difficult because institutions report aggregate enrollment data and are not required to distinguish between on-campus and online enrollment.

In addition, aggregate online education estimates are based on students who attend Title IV eligible institutions, yet an online provider does not necessarily need to be eligible for Title IV, which leads to a further undercount of for-profits' prevalence.

Nevertheless, since it does not rely solely on institutional size or federal aid eligibility, this for-profit classification is minimally affected by these data impediments. At most, the market-level dimension—explained in more detail in the next section—underestimates the number of metropolitan areas that have experienced above-average for-profit enrollment growth. Ultimately, more effort should be made to make available as much complete data about for-profits as possible.

More nuance is needed to understand a complex sector. Most of the research on for-profits has used rather broad strokes to define the sector and its students (Apling 1993; Hentschke 2004; Kelley 2001; Tierney and Hentschke 2007). Nevertheless, a few data points and findings are worth highlighting, especially as they contributed to development and design of the classification scheme.

### LOOKING BEYOND ENROLLMENT

Although stories about the remarkable growth of certain for-profit institutions grab the headlines, it is important to note that most for-profits are quite small (90 percent enroll 1,000 students or fewer) compared with other types of postsecondary institutions.<sup>7</sup> Also, three out of five for-profit institutions offer no more than a certificate as their highest credential awarded, compared with 10 percent of public two-year institutions and less than 1 percent of public and private, not-for-profit four-year institutions (SEE TABLE 1). In short, the typical for-profit institution serves a highly specific role within the larger higher education enterprise.

Another key characteristic of for-profit institutions is their concentration in urban areas. Overall, 86 percent of for-profit institutions are located in metropolitan areas (MSAs), 11 to 23 percentage points higher than their peers in the public four- and two-year sectors, respectively.<sup>8</sup> Being predominantly located in metropolitan areas provides postsecondary opportunities to place-bound populations, who may consider a nearby for-profit a more attractive option than a longer commute.<sup>9</sup> For-profits provide access to postsecondary education for urban non-traditional students who would not otherwise enroll in college and who value convenience, flexibility, programs in growing industries and occupations, and short time to completion (Hentschke 2010).

<sup>7</sup> It is important to note that campus branches are considered to be separate for-profit institutions. For example, Kaplan College-Bakersfield and Kaplan College-Fresno are treated as unique for-profit institutions.

<sup>8</sup> Specifically, 89 percent of two-year for-profits and 93 percent of four-year for-profits are located in metropolitan areas.

<sup>9</sup> Research from Kimball, Hwang, and Oseguera (2011) suggests that in large part geographic proximity affects the attendance decisions of students with high negative collegegoing risk behaviors.

## TABLE 1

### SELECTED CHARACTERISTICS OF POSTSECONDARY INSTITUTIONS BY SECTOR, 2009

Percent Distribution	For-Profit	Public Two-Year	Public Four-Year	Private, Nonprofit Four-Year
<b>Institution Size</b>				
Under 1,000	90	18	6	46
1,000–4,999	8	43	33	43
5,000–9,999	<1	21	23	7
10,000 or more	<1	17	39	4
<b>Highest Degree Offered</b>				
Nondegree/certificate	62	10	0	1
Associate's degree	20	90	1	0
Bachelor's degree	11	0	17	27
Master's degree	6	0	36	40
Doctoral degree	1	0	45	31
<b>Location</b>				
In a MSA	86	63	75	85
Not in a MSA	14	37	25	15

Note: There are 28 for-profit institutions that reported enrollment of 5,000 students or higher. However, due to their small number relative to all for-profit institutions, the estimates in the two relevant cells are less than 1 percent. Campus branches are considered to be separate for-profit institutions. More detail on institutional characteristics is available in **APPENDIX B, TABLE B1**.

Source: U.S. Department of Education, Institutional Postsecondary Education Data System, Academic Year 2008–09



In addition, for-profit institutions often differ from other sectors in terms of their price of attendance. In academic year 2007–08, the average price of attendance for undergraduate students attending for-profit institutions was \$20,636, higher than public four-year institutions (\$15,222) and public two-year institutions (\$7,033) but lower than private nonprofit four-year institutions (\$28,241) (U.S. Department of Education 2008). For-profits offering credentials of two years or more are slightly more expensive than those offering certificates of less than two years (**SEE TABLE 2**).

Of the for-profit institutions reporting to the U.S. Department of Education, most are accredited. Almost half of four-year for-profits are regionally accredited (as are the overwhelming majority of public and private nonprofit four-year institutions), with most of the remainder accredited by national or other agencies. About 90 percent of for-profits that are two-years or less are accredited by national or other accrediting bodies (U.S. Department of Education 2011). Almost 3,000 for-profit institutions are eligible for Title IV federal student aid, such as Pell grants and Stafford loans; there are also for-profits that are not Title-IV eligible, although the number is unclear (**SEE BOX 1**).

**TABLE 2**  
**AVERAGE PRICE OF ATTENDANCE**  
**BY INSTITUTIONAL SECTOR,**  
**2007–08**

Institutional Sector	Price of Attendance
Public four-year	\$15,222
Private, nonprofit four-year	\$28,241
Public two-year	\$7,033
For-profit	\$20,636
Two years or more	\$21,892
Less-than-two years	\$16,382

Note: Students' average price of attendance for institutions attended for the 2007–08 academic year, adjusted for attendance. Includes tuition and fees, room and board, books and supplies, and other expenses.

Source: U.S. Department of Education 2008

## THE FACE OF FOR-PROFITS

Shifting from institutions to students, a number of socio-demographic characteristics differentiate for-profit students from those enrolled at other postsecondary institutions (**SEE TABLE 3**). Using the latest national data, the results indicate that—

- Sixty-three percent of undergraduate students at for-profit institutions are nontraditional aged, compared to 50 percent, 26 percent, and 30 percent at public two-year, public four-year, and private, not-for-profit four-year institutions, respectively.
- One-quarter of undergraduates at for-profits are Black and one-fifth are Hispanic, significantly more than other sectors. Also, nearly 70 percent of students at for-profits are female, which is between 13 and 16 percentage points greater than the other sectors.

- For-profit institutions enroll a high proportion of independent students (76 percent compared to 57 percent at public two-year, 37 percent at public four-year, and 34 percent at private, not-for-profit four-year institutions).
- The highest level of parent education for a majority of for-profit students is high school or less, compared to other sectors where the highest level of parent education for a majority of students is at least some college/associate's degree on average.

These characteristics are illustrative, but don't take into account the overrepresentation of low-income students in the for-profit sector.

Guryan and Thompson (2010) found that 16 percent of for-profit students came from families receiving public assistance, compared with just 3 percent of students from public

**TABLE 3**  
**SELECTED SOCIODEMOGRAPHIC CHARACTERISTICS OF POSTSECONDARY STUDENTS BY INSTITUTIONAL SECTOR, 2007–08**

Note: These data include only undergraduate students. Approximately 12 percent of for profit enrollment is at the graduate level. Percentages may not add to 100 due to rounding.

Source: U.S. Department of Education, *National Postsecondary Student Aid Study*, Academic Year 2007–08

Percent Distribution	For-Profit	Public Two-Year	Public Four-Year	Private, Nonprofit Four-Year
<b>Age</b>				
18 or younger	5	9	11	13
19–23 years old	32	41	63	57
24–29 years old	28	19	15	12
30–39 years old	22	16	7	10
40 or older	12	15	5	8
<b>Dependency Status</b>				
Financially dependent	24	43	69	66
Independent	76	57	31	34
<b>Gender</b>				
Male	31	44	47	44
Female	69	56	53	56
<b>Race/Ethnicity</b>				
White	47	60	67	68
Black	25	14	12	12
Hispanic	21	15	12	12
Asian	3	6	6	6
American Indian	0	1	1	0
Pacific Islander	1	1	1	1
Other/More than one	3	3	3	3
<b>Parent Education</b>				
High school or less	51	40	25	24
Some college/Associate's degree	28	29	25	23
Bachelor's degree	13	18	26	24
Advanced degree	8	13	23	28

institutions and only 2 percent of students from private, not-for-profit four-year institutions. Also, a recent report from the Institute for Higher Education Policy (IHEP) found that low-income female students from every racial/ethnic group are nearly three times as likely to attend for-profits as their higher-income female counterparts (IHEP 2011). So even though basic descriptive comparisons between for-profit institutions and their students with other institutional sectors are instructive, they are inadequate without taking into account either the income status of students or the level of income in the communities where for-profits have become more prominent.

### **SUCCESS TOWARD A POSTSECONDARY CREDENTIAL**

In terms of credentials awarded, the sector has generated an impressive number of certificates and associate's degrees in high-demand, occupational fields. For example, two out of every five certificates were awarded by the for-profit sector, far more than the public or private, not-for-profit sectors. Moreover, although their overall share of associate's degrees conferred is modest (18 percent in 2009), for-profits awarded more than half of all associate's degrees in computer and information services; one-third in business, management, and marketing; and 23 percent in the health professions (Deming et al. 2012; U.S. Department of Education 2011b).

Outside these fields of study, though, for-profit students appear to be at higher risk of not completing postsec-

ondary education than their counterparts in public and private, not-for-profit institutions (Deming et al. 2012). For example, about 91 percent of undergraduates enrolled in for-profits in 2007–08 had one or more risk factors, compared to about half at public and private, nonprofit four-year institutions; the figure was 13 percent at public two-year institutions (U.S. Department of Education 2008).<sup>10</sup> Further, students who leave less-than-four-year for-profits are more likely than all students to become delinquent or default on their student loans (Cunningham and Kienzl 2011).

While sociodemographic backgrounds are important predictors of degree completion, left largely unexplored is how students engage the for-profit sector. For example, when comparing the likelihood of attaining a degree, it is important to distinguish between for-profit-only attendance and mixed enrollment (attendance in a for-profit at some point). In the end, using sociodemographic, enrollment, and completion data to describe the for-profit sector and its students is an important first step. Yet a broader framework is needed to delve deeper within the for-profit sector and to establish valid comparisons across institutions and students in the sector. This framework undergirds the classification scheme and provides an impartial focal point for analysis.

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<sup>10</sup> The U.S. Department of Education (2002) identified seven risk factors—delaying enrollment by a year or more, attending part time, being financially independent (for purposes of determining eligibility for financial aid), having children, being a single parent, working full time while enrolled, and being a high school dropout or a GED recipient—that are negatively associated with persistence and degree attainment.

# DEVELOPING A FRAMEWORK FOR FOR-PROFITS

To advance beyond both basic descriptive information and anecdotes, a multi-faceted framework is needed to distinguish among for-profit institutions, including the students who attend such institutions. The framework that supports this for-profit-specific classification scheme is composed of three hierarchical but interconnected dimensions: Market-, institutional-, and individual-level. A short summary of each dimension is given below, followed by a more detailed explanation of how the dimensions are constructed and what they measure.

- The **market-level dimension** measures the growth in for-profit enrollment in selected “educational markets”<sup>11</sup> (or MSAs) relative to the sector’s overall growth at the state level. Markets with the largest growth are arguably satisfying educational demand by expanding existing capacity.
- The **institutional-level dimension** uses an institution’s enrollment concentration—all full-time students versus a combination of full- and part-time students—over two time periods as a proxy for the institution’s niche. Institutions that enroll only full-time students are likely to be highly specialized and offer mainly short-term, technical programs that lead to a certificate.
- The **individual-level dimension** is based on where for-profit institutions fit in first-time students’ sequence of postsecondary education participation. The distinction made in this dimension is between students who attended only a for-profit institution of any level and those who started or ended in any other type of postsecondary institution.

<sup>11</sup> MSAs are used to define educational markets, and the two terms are used interchangeably. According to the U.S. Office of Management and Budget, MSAs have “at least one urbanized core of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration with the core as measured by commuting ties.” (For information on metropolitan statistical areas, see <http://www.whitehouse.gov/sites/default/files/omb/assets/bulletins/b10-02.pdf>.)

## BOX 2

### ACCOUNTING FOR ONLINE EDUCATION

The market-level dimension focuses on geographic location when considering educational markets. However, it is important to note that online education also plays a role in those markets, especially when thinking about the for-profit sector. Deming et al. (2012) noted that online education is not only the fastest growing part of for-profit education but the “most rapidly growing part of higher education” (p. 1). According to the most recent national data, 12 percent of undergraduates at for-profits took only online courses while less than 3 percent combined for undergraduates at public and private nonprofit institutions did so (U.S. Department of Education 2011a). In some cases online education comprises a portion of a for-profit institution’s educational offerings, while some institutions offer only online courses. Although it is difficult to capture information about online education, future research is necessary to understand how it intersects with competition within educational markets.

## MARKET-LEVEL DIMENSION

Geographical location is an important consideration for many reasons, including state/local tuition and financial aid policies, enrollment demand and capacity, and the potential to provide access for prospective students. Location is one component of educational markets, which include the combination of institutions from various sectors satisfying demand for higher education. In some markets, demand may outstrip the capacity of existing institutions, leaving a lack of available options and incentives for new educational options.

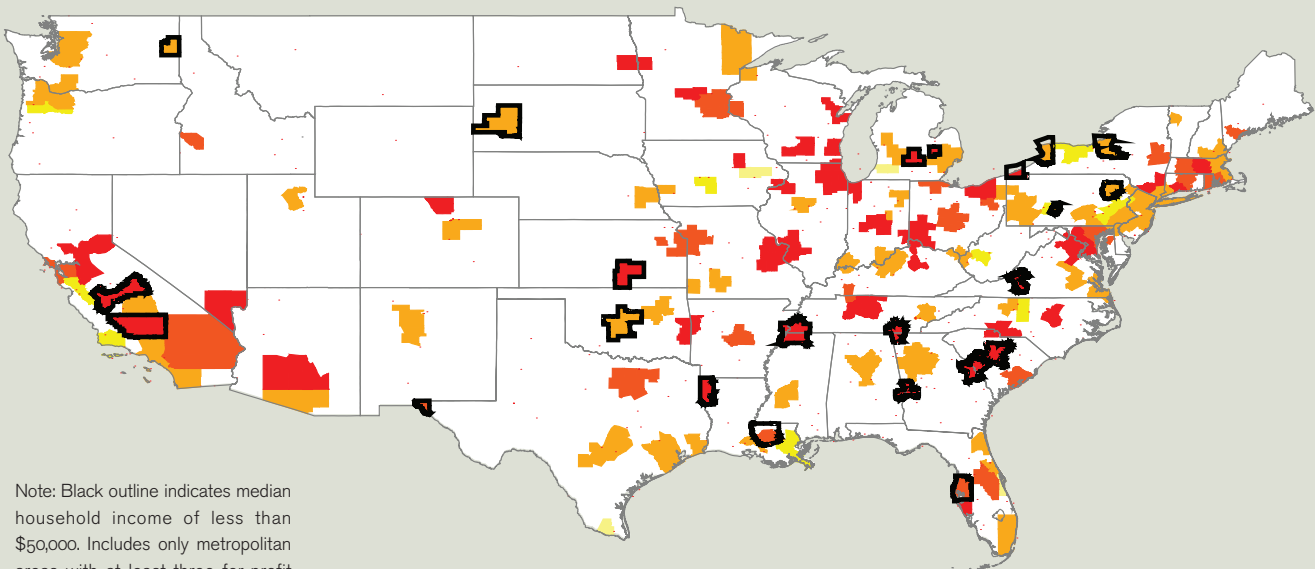
For for-profits in particular, the notion of geographic space is reflected in their relatively easy ability to “set up shop” largely anywhere where there is demand for their educational services because they are not bound to an industrial site, place of worship, or government-sanctioned placement (i.e., Morrill Act of 1890, 7 U.S.C. § 301). They may also be purely online (SEE BOX 2). As a result, for profits tend to be located in areas where there is not enough existing capacity or where there is the greatest concentration of potential students. In this regard, it is not surprising that 86 percent of for-profits are located in metropolitan areas.

Enrollment growth of for-profits in these communities has been uneven (SEE FIGURE 1).<sup>12</sup> The metropolitan areas in dark red experienced the greatest growth in for-profit enrollment—at least a 50 percent increase over a six-year period (2003 to 2009). In contrast, those highlighted in light yellow saw a decrease of the same magnitude. Thus, using a metro-centric lens, the market-level dimension first distinguishes between areas that have experienced above-average expansion (or contraction) in for-profit enrollment from 2003 to 2009 relative to the sector’s overall growth in the state during the same time period. If market conditions are favorable (i.e., lack of a viable public option, demand for specialized labor market skills, and so on) then enrollment growth in the metropolitan area would outpace the state average as for-profits capitalize on their comparative advantage.

<sup>12</sup>There are three or more for-profit institutions in 47 percent of the 359 MSAs in the data sample. Conversely, 189 MSAs did not meet the at-least-three threshold. This threshold was chosen for analytic reasons as well as to capture “meaningful presence” of for-profit institutions in those areas.

## FIGURE 1

### MAP OF FOR-PROFIT GROWTH BY METROPOLITAN AREA, 2003–09



Note: Black outline indicates median household income of less than \$50,000. Includes only metropolitan areas with at least three for-profit institutions in both 2003 and 2009.

Source: U.S. Department of Education, Integrated Postsecondary Education Data System, 2003–04 and 2008–09; U.S. Census Bureau, American Community Survey, 2008; authors’ calculation

#### LEGEND

- Dark Red—For-profit enrollment increase of 50 percent or greater
- Dark Orange—For-profit enrollment increase between 20 and 49 percent
- Light Orange—Steady for-profit enrollment (decrease or increase of no more than 20 percent)
- Dark Yellow—For-profit enrollment decrease between 20 and 49 percent
- Light Yellow—For-profit enrollment decrease of 50 percent or greater

Yet the market-level dimension does not solely focus on for-profit enrollment growth, but also on where the growth is occurring. Students in all metro areas need access to a range of educational options, from certificate programs to bachelor's degrees and beyond. However, given the historical and pervasive barriers low-income students face in accessing college, it is particularly important to focus attention on metro areas with relatively low household incomes—less than \$50,000—especially those with limited options or a lack of capacity. *To address this, the market-level dimension further divides the nation's metropolitan areas by their affluence.*

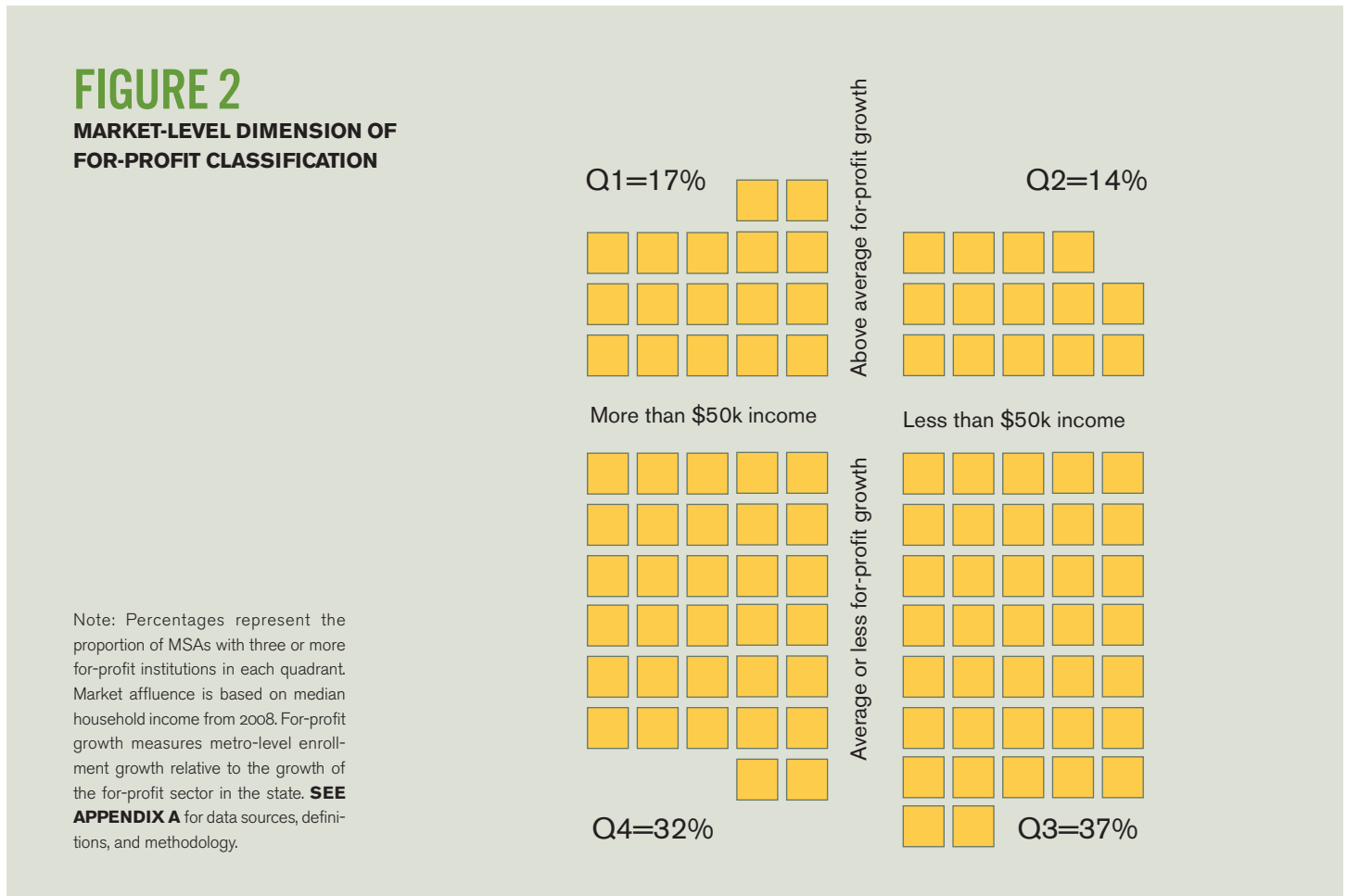
**FIGURE 2** depicts the combination of market affluence and for-profit growth, resulting in four possible scenarios:<sup>13</sup>

- Quadrant 1: Affluent metropolitan areas with above-average for-profit growth (17 percent of MSAs).
- Quadrant 2: Less affluent metropolitan areas with above-average for-profit growth (14 percent of MSAs).
- Quadrant 3: Less affluent metropolitan areas with average or less for-profit growth (37 percent of MSAs).
- Quadrant 4: Affluent metropolitan areas with average or less for-profit growth (32 percent of MSAs).

So even though the for-profit sector as a whole has seen unprecedented growth, above-average, or “accelerated” growth has been observed in nearly one-third of the nation's metro areas (quadrant 1 and quadrant 2). More critically, one in seven of the nation's poorest metropolitan areas have seen a particularly sharp rise in for-profit enrollment (quadrant 2 only).

This finding raises questions for future analysis. For instance, with continued capacity constraints in the public or private, not-for-profit sectors, does enrollment growth in the for-profit sector mean greater access to postsecondary education? Are the postsecondary options in different types of metro areas similar? Market affluence and enrollment growth alone do not tell the whole story. It is important to include information about the institutions themselves, specifically their organizational mission and orientation.

<sup>13</sup> Additional characteristics of the market-level classification by quadrant are provided in **APPENDIX B, TABLE B2**.



## INSTITUTIONAL-LEVEL DIMENSION

Postsecondary institutions are exceedingly complex organizations—from the breadth of their offerings and delivery of instruction to the determination of optimal levels of faculty, administration, and support staff—and for-profit institutions are no different. However, several organizational features of for-profits both reduce their complexity compared to other postsecondary education institutions and enable them to be distinguished from one another.

In general, postsecondary institutions that are highly specialized (i.e., offering mainly short-term, technical programs that lead to a certificate) are less complex than comprehensive institutions due to their focused educational mission. For-profits tend to be more specialized in orientation and offerings than their counterparts in the public or private, not-for-profit sectors.<sup>14</sup> For example, a higher proportion (62 percent) of for-profit institutions offer certificates as their highest degree. This specialization means that students can or, in some cases, are required to enroll full time in order to complete their (short-term) program of study.<sup>15</sup> In fact, more than half (53 percent) of for-profits offering only short-term certificates enroll only full-time students.

For this classification, the institutional-level dimension measures for-profits' degree of specialization using the percentage of students who are enrolled full time as a proxy. Institutions that enroll only full-time students are considered **specialized**. Institutions that accept part-time students are considered **comprehensive**.

Students who enroll in a short-term program on a full-time basis tend to have experiences that differ from those enrolled for a longer period or part time. They may have fewer competing time commitments (e.g., work, family) and therefore can benefit more from academic and social supports, which have been shown to be positively related with persistence and degree completion (Tinto 2012).

In terms of the classification, the institutional-level dimension carries over the enrollment growth measure from the market-level dimension and adds for-profits' degree of specialization. The resulting quadrants are shown in **FIGURE 3**.

### The scenarios<sup>16</sup> are as follows:

**Quadrant 1:** Specialized institutions operating in metropolitan areas with above-average for-profit growth (10 percent of for-profit institutions).

**Quadrant 2:** Specialized institutions operating in metropolitan areas with average or less for-profit growth (24 percent of for-profit institutions).

**Quadrant 3:** Comprehensive institutions operating in metropolitan areas with average or less for-profit growth (45 percent of for-profit institutions).

**Quadrant 4:** Comprehensive institutions operating in metropolitan areas with above-average for-profit growth (21 percent of for-profit institutions).

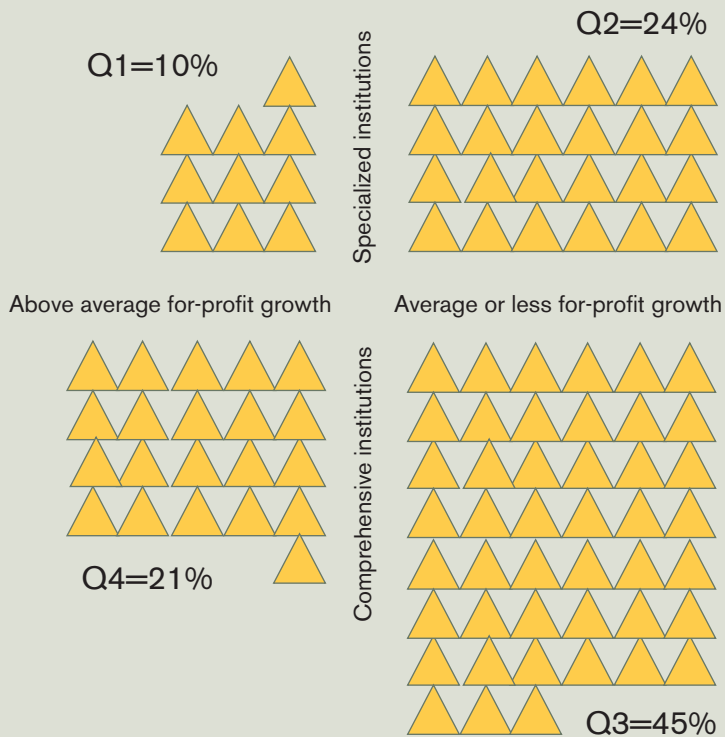
<sup>14</sup> Additionally, as Apling (1993) found in the 1980s and is still true today, high specialization and small size are correlated.

<sup>15</sup> Even some of the more well-known for-profit institutions, such as the University of Phoenix, have campuses that report full-time only enrollment.

<sup>16</sup> Additional characteristics of the institutional-level classification by quadrant are provided in **APPENDIX B, TABLE B3**.

## FIGURE 3

### INSTITUTIONAL-LEVEL DIMENSION OF FOR-PROFIT CLASSIFICATION



Note: Percentages represent the proportion of for-profit institutions in each quadrant. For-profit growth measures metro-level enrollment growth relative to the growth of the for-profit sector in the state. Institutional specialization is based on the proportion of full-time students. **SEE APPENDIX A** for data sources, definitions, and methodology.

Two results are worth further discussion. First, 34 percent of for-profit institutions are defined as specialized (SEE FIGURE 3, upper half), but those in the first quadrant are unique because they are able to operate in markets that already support a large number of for-profit institutions. Second, within educational markets that have experienced

the greatest growth in for-profit enrollment from 2003 to 2009, comprehensive for-profits—those that accept part-time students—outnumber specialized institutions two to one (21 percent to 10 percent, respectively; SEE FIGURE 3, left half). This finding signals a shift toward comprehensive for-profit institutions over the past few years.

## INDIVIDUAL-LEVEL DIMENSION

Thus far, the classification scheme has offered insight into distinguishing between for-profits by degree of specialization and among them in similar educational markets. Attention now shifts to the classification of first-time students who attended for-profit institutions. Several studies have examined for-profit students' likelihood of completing a postsecondary credential (Chung 2008; Deming et al. 2012), but their findings have been restricted to those who started their studies in the for-profit sector. Comparatively, little attention has been paid to the way students engage the for-profit sector, especially if they did not begin there.

As shown in TABLE 4, more than 614,000 first-time college students in fall 2003 spent at least one semester at a for-profit institution by the 2008–09 academic year. Seventy percent of these students only attended for-profits, mostly in the two-year and less-than-two-year sectors, whereas the remaining 30 percent attended other colleges and universities as part of their postsecondary trajectory. Among students with mixed attendance, the timing of enrollment in for-profits varies. Just over one-third started college in a for-profit and then moved on to another sector of higher education, while the other two-thirds moved in the opposite direction, enrolling in a for-profit after beginning somewhere else.

Attendance that is exclusive to or combined with attendance at other types of postsecondary institutions may explain students' eventual success. Students are making choices that appear to best fit their current circumstances, but exclusive attendance in the for-profit sector is tangibly different than alternating or ancillary attendance in a for-profit institution.<sup>17</sup> When students stay within the for-profit sector, their outcomes are the “responsibility” of the sector; no other institution plays a part in their educational trajectory, degree completion, or employment prospects. Unlike the existing one-size-fits-all system of accountability, this classification scheme considers where for-profit colleges and universities fit in first-time students' sequence of postsecondary education participation in order to provide a mechanism for better understanding the degree to which student for-profit attendance patterns affect student success. *To this end, the individual-level dimension accounts for intersectoral (or mixed) attendance patterns as well as enrollment that remained within the for-profit sector.*

<sup>17</sup> This point is especially relevant if students are enrolled elsewhere and are using those particular for-profits to maintain or accelerate their progress to a degree or as a way to preserve full-time status for federal financial aid purposes.

**TABLE 4**  
**ENROLLMENT PATTERNS OF**  
**FIRST-TIME STUDENTS, 2003–09**

Note: Includes students who had ever attended a for-profit.

Source: U.S. Department of Education, *Beginning Postsecondary Students Survey*, 2004–09; authors' calculation

	Percentage	Observations
<b>Exclusive Attendance in the For-Profit Sector</b>	<b>70%</b>	<b>430,700</b>
Only attendance in 4-year for-profits	23%	96,900
Only attendance in 2-year for-profits	31%	134,400
Only attendance in less-than-2-year for-profits	43%	186,500
Only attendance in multiple for-profits	3%	12,900
<b>Mixed Enrollment in the For-Profit Sector</b>	<b>30%</b>	<b>183,500</b>
Began at a for-profit	38%	69,200
Attended a for-profit after starting somewhere else	62%	114,300
<b>Total</b>	<b>100%</b>	<b>614,200</b>



# FIGURE 4

## INDIVIDUAL-LEVEL DIMENSION OF THE FOR-PROFIT CLASSIFICATION



Note: Percentages represent the proportion of first-time students in each quadrant. Institutional specialization is based on the proportion of full-time students who had ever attended a for-profit. For-profit attendance focuses on whether or not students attended only for-profits. **SEE APPENDIX A** for data sources, definitions, and methodology.

With regard to the classification,<sup>18</sup> the quadrants in **FIGURE 4** reveal four possible scenarios:

- Quadrant 1: For-profit-exclusive students who attended specialized institutions (32 percent of first-time students).
- Quadrant 2: For-profit-exclusive students who attended comprehensive institutions (38 percent of first-time students).
- Quadrant 3: Mixed-sector students who attended comprehensive institutions (18 percent of first-time students).
- Quadrant 4: Mixed-sector students who attended specialized institutions (12 percent of first-time students).

<sup>18</sup> Additional characteristics of the individual-level classification by quadrant are provided in **APPENDIX B, TABLE B4**.

Several results are worth further discussion. Of first-time students who spent at least one semester at a for-profit, 70 percent attended only for-profits (**SEE FIGURE 4**, upper half) and 30 percent attended a mix of sectors that included for-profits (**SEE FIGURE 4**, bottom half). In addition, 56 percent of for-profit students attended comprehensive for-profits (**SEE FIGURE 4**, right half), while the remainder attended specialized for-profits (**SEE FIGURE 4**, left half). Taken together, these two findings indicate that the average for-profit student is most likely to be enrolled exclusively at a comprehensive institution, but what about students from less affluent communities? What types of for-profit institutions are most available to these students and how are they using them? To address these questions, all three dimensions need to be connected.

# CONNECTING THE DIMENSIONS

Up to now, the three dimensions that comprise the for-profit classification have been discussed independently. When the dimensions are combined, the classification provides a framework flexible enough to compare for-profit institutions and students in the same categories along an assortment of key outcomes. This section explains how for-profit institutions are distinguished and delineated, and then how to apply the classification framework to students.

## CLASSIFYING FOR-PROFIT INSTITUTIONS

To classify for-profit institutions, the market- and institutional-level dimensions are used. At this point, there is no need to include the student-level dimension. Each for-profit institution is classified based on its degree of specialization and the affluence of for-profit growth in the metropolitan area where it is located. All told, there are eight possible combinations to classify for-profit institutions (**SEE TABLE 5**).<sup>19</sup> One category, for instance, includes only specialized for-profit institutions located in affluent educational markets that are increasingly being served by the for-profit sector (market-level Q1 and institutional-level Q1; **SEE TABLE 5**, row 1). Another category includes similar type of institutions (i.e., specialized) in markets that have also experienced sharp for-profit growth. However, unlike the previous category,

these for-profits are located in poorer metropolitan areas (market-level Q2 and institutional-level Q1; **SEE TABLE 5**, row 5). The only difference between these two categories is the affluence of the educational market where the for-profit is located. In essence, a comparison of institutional outcomes across these two categories controls for all other factors except the affluence of the corresponding educational market.

<sup>19</sup> Each for-profit institution was placed in one of four market-level dimension quadrants. Based on that initial placement, each institution was then placed in one of two institutional-level dimension quadrants. As discussed in the previous section, for-profit growth appears in both the market- and institutional-level dimensions. When the dimensions are combined, an institution located in metropolitan area with above average for-profit growth (market-level quadrant 1 or 2) can, by definition, only be placed in institutional-level quadrant 1 or 4. Eight institution categories emerge after all unique quadrant combinations are exhausted.

**TABLE 5**  
**CLASSIFYING FOR-PROFIT INSTITUTIONS**

Source: U.S. Census Bureau, *American Community Survey*, 2008; U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2003–04 and 2008–09; authors' calculation

	Market Affluence	For-Profit Growth	Institutional Specialization	Percentage of For-Profit Institutions
<b>Q1–Q1</b>	More than \$50k	Above average	Specialized	7%
<b>Q1–Q4</b>	More than \$50k	Above average	Comprehensive	15%
<b>Q4–Q2</b>	More than \$50k	Average or less	Specialized	16%
<b>Q4–Q3</b>	More than \$50k	Average or less	Comprehensive	33%
<b>Q2–Q1</b>	Less than \$50k	Above average	Specialized	3%
<b>Q2–Q4</b>	Less than \$50k	Above average	Comprehensive	6%
<b>Q3–Q2</b>	Less than \$50k	Average or less	Specialized	8%
<b>Q3–Q3</b>	Less than \$50k	Average or less	Comprehensive	12%

Why is this important? Note that 71 percent of for-profit institutions are located in affluent metropolitan areas (**SEE TABLE 5**, row 1-4) and, among these institutions, 32 percent are specialized. On the other hand, 29 percent of for-profit institutions are located in less affluent metropolitan areas (**SEE TABLE 5**) but 38 percent of these institutions are specialized. Thus, specialized for-profits are disproportionately located in less affluent areas, raising questions of whether educational opportunities are similar across metro areas. This is why the classification contains a third level—to tackle issues involving students by taking into account key institutional characteristics and market contexts.

### CLASSIFYING STUDENTS WHO ATTEND FOR-PROFIT INSTITUTIONS

The classification of for-profit students links all three dimensions together: Market-, institutional-, and individual-levels. Students are categorized based on their for-profit enrollment behavior, the degree of institutional specialization, and the educational market where the for-profit is located. When all three dimensions are applied, there are 16 possible combinations to the classification scheme (**SEE TABLE 6**).<sup>20</sup> One combination consists of for-profit-exclusive students who attended specialized institutions located in affluent markets with above-average for-profit growth

(**SEE TABLE 6**, row 1). Another combination consists of students who exhibited similar attendance patterns (i.e., for-profit exclusive) and attended comprehensive for-profit institutions at some point. These institutions were located in poorer markets with average or less for-profit growth (**SEE TABLE 6**, row 16).

Recall the two earlier questions about the types of for-profit institutions most available to students living in less affluent communities and how such institutions are being used. According to the most recent study of first-time college students, of all for-profit students who had ever attended a for-profit, 24 percent were for-profit-exclusive students who attended specialized institutions in poorer metropolitan areas, while only 9 percent were for-profit-exclusive students who attended specialized institutions in affluent metropolitan areas. The next step would be to take a closer look at student-level outcomes, such as first-time students' likelihood of graduating.

<sup>20</sup> Each for-profit student was placed in one of four individual-level dimension quadrants. Next, students were sorted based on the specialization of the for-profit institution they attended and the for-profit growth in the metropolitan area where that institution is located. By definition, students could only be placed in one of two institutional-level quadrants. Finally, students were sorted according to the affluence of and for-profit growth in the metropolitan area where their for-profit institution is located. By definition, students could only be placed in one of two market-level quadrants. Sixteen student categories emerge after all unique quadrant combinations are exhausted.

**TABLE 6**  
CLASSIFYING STUDENTS WHO ATTENDED FOR-PROFITS

Student Categories	Market Affluence	For-Profit Growth	Institutional Specialization	For-Profit Attendance	Percentage of First-Time For-Profit Students
<b>Q1-Q1-Q1</b>	More than \$50k	Above average	Specialized	Only FP sector	5%
<b>Q1-Q1-Q4</b>	More than \$50k	Above average	Specialized	Mixed sectors	1%
<b>Q1-Q4-Q2</b>	More than \$50k	Above average	Comprehensive	Only FP sector	7%
<b>Q1-Q4-Q3</b>	More than \$50k	Above average	Comprehensive	Mixed sectors	4%
<b>Q4-Q2-Q1</b>	More than \$50k	Average or less	Specialized	Only FP sector	17%
<b>Q4-Q2-Q4</b>	More than \$50k	Average or less	Specialized	Mixed sectors	9%
<b>Q4-Q3-Q2</b>	More than \$50k	Average or less	Comprehensive	Only FP sector	17%
<b>Q4-Q3-Q3</b>	More than \$50k	Average or less	Comprehensive	Mixed sectors	10%
<b>Q2-Q1-Q1</b>	Less than \$50k	Above average	Specialized	Only FP sector	4%
<b>Q2-Q1-Q4</b>	Less than \$50k	Above average	Specialized	Mixed sectors	2%
<b>Q2-Q4-Q2</b>	Less than \$50k	Above average	Comprehensive	Only FP sector	1%
<b>Q2-Q4-Q3</b>	Less than \$50k	Above average	Comprehensive	Mixed sectors	1%
<b>Q3-Q2-Q1</b>	Less than \$50k	Average or less	Specialized	Only FP sector	7%
<b>Q3-Q2-Q4</b>	Less than \$50k	Average or less	Specialized	Mixed sectors	1%
<b>Q3-Q3-Q2</b>	Less than \$50k	Average or less	Comprehensive	Only FP sector	10%
<b>Q3-Q3-Q3</b>	Less than \$50k	Average or less	Comprehensive	Mixed sectors	4%

Source: U.S. Census Bureau, *American Community Survey*, 2008; U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2003–04 and 2008–09; U.S. Department of Education, *Beginning Postsecondary Students Study*, 2004–09; authors' calculation

# FROM CLASSIFICATION TO OUTCOMES

The for-profit classification scheme, as described in the previous section, allows for outcomes to be compared between and among groups, whether they are institutions or students, and in doing so to address prominent research questions. The type of questions posed determines whether the institutional- or the individual-level classification is used. For example, questions about institutional graduation rates and cohort default rates use the former, while questions about persistence, completion, and total student loan debt use the latter.

This section illustrates how the various combinations inherent in the classification can be used to compare institutional- and individual-level outcomes, respectively, within similar “peers” and across dissimilar ones. As a nod to one of the first institutional classification schemes in higher education, for-profits located in California are highlighted in the institutional example below.<sup>21</sup>

## INSTITUTIONAL GRADUATION RATES

Institutional graduation rates are the most commonly used method of representing institutional performance.<sup>22</sup> On the whole, four-year for-profit institutions report graduation rates on par with public four-year institutions, 45 percent and 46 percent, respectively, and graduation rates of the average two-year for-profit are nearly 15 percentage points higher (**SEE APPENDIX B, TABLE B1**). However, there is a great deal of variation within these rates. A common approach is to order institutions from highest to lowest based on their graduation rates and point at the two extremes as examples worthy of commendation or as targets of criticism. This approach fails to take into account different institutional orientations and market niches. So rather than treating the for-profit sector as monolithic, it is more appropriate to apply the for-profit institution

classification and compare the institutional graduation rates of peer for-profits. Now the question then becomes, *Which for-profits are performing better (or worse) than their peers?*

**TABLE 7** shows the results from the application of the institutional-level classification on all the for-profits in California.<sup>23</sup> For instance, Western Career College-Sacramento and Universal Technical Institute of California are located at opposite ends of the state, but both are in affluent markets with above-average for-profit growth—market-level quadrant Q1. The Academy of Art University and the Art Institute of California-San Francisco are also situated in the same market-level quadrant (Q1, affluent market with above-average growth). However, even though the institutional graduation rates of the former pair are similar,

<sup>21</sup> California is also noteworthy because, according to back-of-the-envelope calculations conducted by Cellini (2005), each year 1.3 million students enroll in for-profit institutions there, far eclipsing any other state.

<sup>22</sup> Institutional graduation rates are defined the number of students in a cohort of full-time, first-time, degree/certificate-seeking undergraduates who completed their program of study within 150 percent of normal time. For additional information on data and methodology, **SEE APPENDIX A**.

<sup>23</sup> Only the California for-profits that are Title IV-eligible are used in the example. Twenty-two percent of these California for-profits offer on-line learning in addition to traditional on-campus courses (IPEDS). Currently, institutions report aggregated enrollment data to IPEDS and they are not required to distinguish between on-campus and online enrollment. This classification is flexible enough to incorporate data on on-line learning once these data become available.

## TABLE 7

### INSTITUTIONAL OUTCOMES OF SELECTED CALIFORNIA FOR-PROFITS BY MARKET- AND INSTITUTION-LEVEL QUADRANT CATEGORIES

Market Quadrant	Institution Quadrant	Institution Name	Metropolitan Area	Graduation Rate
Q1	Q1	Universal Technical institution of California Inc.	Riverside—San Bernardino—Ontario	67%
Q1	Q1	Western Career College-Sacramento	Sacramento--Arden-Arcade--Roseville	69%
Q1	Q4	Academy of Art University	San Francisco—Oakland—Fremont	35%
Q1	Q4	Ex-Pression College for Digital Arts	San Francisco—Oakland—Fremont	79%
Q1	Q4	The Art Institute of California-San Francisco	San Francisco—Oakland—Fremont	35%
Q2	Q1	Institute of Technology Inc.	Fresno	64%
Q2	Q1	San Joaquin Valley College-Bakersfield	Bakersfield	52%
Q2	Q1	Sierra Valley Business College	Fresno	5%
Q2	Q4	Kaplan College-Bakersfield	Bakersfield	76%
Q2	Q4	Kaplan College-Fresno	Fresno	73%
Q3	Q2	Estes Institute of Cosmetology Arts and Science	Visalia—Porterville	.
Q3	Q2	Milan Institute	Visalia—Porterville	.
Q3	Q2	San Joaquin Valley College-Visalia	Visalia—Porterville	.
Q3	Q3	San Joaquin Valley College	Visalia—Porterville	.
Q3	Q3	Tulare Beauty College	Visalia—Porterville	.
Q4	Q2	University of Phoenix-Southern California Campus	Los Angeles—Long Beach—Santa Ana	11%
Q4	Q2	Wyotech-Long Beach	Los Angeles—Long Beach—Santa Ana	62%
Q4	Q3	DeVry University-California	Los Angeles—Long Beach—Santa Ana	30%
Q4	Q3	Fashion Institute of Design & Merchandise-LA	Los Angeles—Long Beach—Santa Ana	100%
Q4	Q3	The Art Institute of California-San Diego	San Diego—Carlsbad—San Marcos	49%

Note: The institutions located in the Visalia-Porterville MSA did not report institutional graduation rates.

Source: U.S. Census Bureau, *American Community Survey*, 2008; U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2003–04 and 2008–09; authors' calculation

69 percent and 67 percent, respectively, those of the latter are less than half these rates. Why? Unlike their specialized peers, the two art-focused for-profits are comprehensive institutions (institutional-level quadrant Q4). Some portion of their student body is part-time students, which could contribute to their lower graduation rate because these students take longer to complete. In affluent, high for-profit growth markets, specialized for-profits in California have higher graduation rates than comprehensive for-profits.

Interestingly, the converse is observed for comprehensive institutions in less affluent, high for-profit growth markets in California. The two comprehensive institutions, Kaplan College-Bakersfield and Kaplan College-Fresno, have slightly higher institutional graduation rates than the three specialized institutions in the same market-level quadrant (Q2, less affluent with above-average growth).<sup>24</sup> This is an encouraging result, at least for the students enrolled in the two comprehensive for-profit institutions; they are attending institutions where they are more likely to attain a degree. Nevertheless, the classification is not designed to fully explain these outcomes or speak to the quality of the degree conferred. Rather the classification is designed to ensure proper comparisons between institutions and across markets, and to provide some guidance into the issues of quality and causality.

## STUDENTS' LIKELIHOOD OF COMPLETING

With twice as many combinations as the institutional-level, the student-level of the classification provides more detail and, thus, can shed welcome light on the following prominent research questions: *Are students who exclusively attend for-profit institutions more likely to complete than those with mixed attendance? Or, What role does for-profit specialization play in students' likelihood of completing?*

Taken in order, compared to those with mixed attendance (individual-level quadrants Q3 and Q4), the degree attainment rate of students who stayed within the for-profit sector (individual-level quadrants Q1 and Q2) were slightly higher (**SEE TABLE 8**). But rather than stopping here,

the classification allows a deeper look. When other dimensions are considered, a more nuanced understanding emerges.

- For example, students who attended only highly specialized, for-profit institutions earn postsecondary credentials at higher rates than those who exclusively attended less specialized for-profits.
- In addition, degree attainment rates were similar for students enrolled in for-profits located in competitive markets, where for-profit enrollment increased at a greater rate than the state as whole, and those in less competitive markets, holding everything else constant.
- Under some specific conditions—when market competition, institutional specialization, and student attendance are held constant—student outcomes differ by market affluence.<sup>25</sup> However the finding is not generalizable to other settings.

The most revealing finding related to student enrollment behavior, though, is not the differences in degree attainment rates but the differences in students' rates of leaving without a credential. In six out of the eight classification pairs where market- and institutional-level features are kept constant,<sup>26</sup> students who stayed solely within the for-profit sector had much higher rates of departure than those who began or ended somewhere else.

Again, this classification cannot fully explain these outcomes, nor does it address questions of quality, regulation, competition, and other issues that are important to examine in the future.

<sup>24</sup> The three specialized institutions are Institute of Technology-Fresno, San Joaquin Valley College-Bakersfield, and Sierra Valley Business College-Fresno.

<sup>25</sup> As shown in **TABLE 7**, the specific combinations are Q1-Q1-Q1 vs. Q2-Q1-Q1 and Q4-Q3-Q3 vs. Q3-Q3-Q3.

<sup>26</sup> The following combination pairs Q1-Q1-Q1 and Q1-Q1-Q4 and Q3-Q2-Q1 and Q3-Q2-Q4 represent the cases where students who stay exclusively within the for-profit sector have rates of dropping out of postsecondary education similar to those who had mixed attendance (i.e., enrolled in other sectors). In the other six combination pairs, students who remain within the for-profit sector are more likely to drop out than those who either started somewhere else or ended their postsecondary enrollment in a for-profit institution.

## TABLE 8

### EDUCATIONAL OUTCOMES OF FOR-PROFIT STUDENTS BY MARKET-, INSTITUTIONAL-, AND INDIVIDUAL-LEVEL QUADRANT CATEGORIES

Market Quadrant	Institution Quadrant	Individual Quadrant	Percentage Who Earned a Credential	Percentage Who Left Without a Credential
Q1	Q1	Q1	58%	39%
Q1	Q1	Q4	40%	37%
Q1	Q4	Q2	42%	47%
Q1	Q4	Q3	45%	24%
Q4	Q2	Q1	53%	42%
Q4	Q2	Q4	49%	25%
Q4	Q3	Q2	37%	53%
Q4	Q3	Q3	49%	32%
Q2	Q1	Q1	42%	50%
Q2	Q1	Q4	46%	20%
Q2	Q4	Q2	47%	44%
Q2	Q4	Q3	55%	32%
Q3	Q2	Q1	61%	30%
Q3	Q2	Q4	52%	34%
Q3	Q3	Q2	36%	56%
Q3	Q3	Q3	39%	42%

Source: U.S. Census Bureau, *American Community Survey*, 2008; U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2003–04 and 2008–09; U.S. Department of Education, *Beginning Postsecondary Students Study*, 2004–09; authors' calculation

# CONCLUSION

More than ever before, understanding the for-profit sector is imperative—it is the only sector in higher education that is experiencing both rapidly increasing enrollment and public scrutiny. However, to date that knowledge has been limited in both scope and utility. Basic descriptive data are useful to understand what postsecondary institutions—for-profit or not—look like and their performance on selected outcomes of interest. The same is true when students are the unit of analysis. In addition, trend data can highlight gains and gaps in providing access to postsecondary education, shifts in financial incentives and student composition, and discrepancies in completion. Descriptive and trend data are important first steps, but are insufficient to draw a fully accurate portrait of the for-profit sector. Further, traditional classification schemes—those that group institutions according to baseline institutional and student characteristics—are inadequate to establish fair comparisons across peer institutions.

The classification developed in this report provides much-needed clarity to this complex sector and advances the conversation through a hierarchical classification scheme for the for-profit sector that incorporates both their setting and students and, in doing so, provides contextualized details across a number of dimensions: Market-, institutional-, and individual-levels. Incorporating all three aspects into a single classification scheme is a novel way of looking at and comparing for-profits. However, this is just a first step.

This classification allows policymakers, researchers, and others to focus only on the differences between for-profit institutions that are similar and between students who engage for-profits in the same way. The brief has provided some examples of how to take the next step in comparing outcomes using peer groups determined by the classification.

The classification may also be used as a lens to examine issues of educational quality, appropriate policy levers to ensure fiscal transparency, and competition. In other words, a variety of prominent research questions can be addressed once the peer comparison groups are identified.

Examples of such questions are:

## **EDUCATIONAL QUALITY**

- Do for-profit institutions provide educational coursework that meets “ability to benefit” goals of ensuring quality education?
- Do students who graduate achieve “gainful employment”?

## **REGULATION**

- How do governments ensure that these institutions are financially responsible, especially if public money is going to fund students at these institutions?
- What role do Pell grants and other financial aid play in financial structures?

## **COMPETITION**

- Do for-profit institutions have a competitive advantage in program offerings and delivery?
- What competitive advantages exist within and between groups of for-profit institutions?

An important next step, then, is to use the classification scheme to address questions such as these. In doing so, the for-profit sector can be viewed as a highly differentiated set of institutions, with positives and negatives, rather than as a monolithic sector. This will allow a better targeted set of policy interventions or program supports toward the goal of improving postsecondary education outcomes.



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# APPENDIX A

## DATA SOURCES AND METHODOLOGY

The three-level classification scheme discussed in this report is based on data drawn from several secondary sources:

- *Beginning Postsecondary Students Longitudinal Study (BPS)*
- *Integrated Postsecondary Education Data System (IPEDS)*
- *American Community Survey (ACS)*

### DATA SOURCES

*BPS*, conducted by the U.S. Department of Education's National Center for Education Statistics (NCES), surveys cohorts of first-time postsecondary students at the end of their first year, and three and six years after starting their postsecondary education. The study collects data on student demographics; attainment goals; school experiences, including enrollment patterns, persistence, and degree attainment; and work experiences. The individual-level dimension in this report is based on data from the most current survey, *BPS: 04/09*, which follows a cohort of students who began their postsecondary education in academic year 2003–04 and participated in follow-up surveys in 2005–06 and 2008–09. Variables used in this report include student demographic characteristics, socioeconomic status, degree expectations, program of study/first academic major, enrollment by semester, and degree attainment.<sup>27</sup>

*IPEDS*, also conducted by the NCES, is a system of surveys that collect annual data from all postsecondary institutions that participate in federal student financial aid programs. The system of surveys includes institutional-level data in the following categories: Institutional characteristics, enrollment, completions, student financial aid, and institutional

resources. The market- and institutional-level dimensions in this report are based on data from the *Institutional Characteristics, Fall Enrollment and Graduation Rate surveys* from academic years 2003–04 and 2008–09, which correspond to the observational period of *BPS: 04/09*. Variables used in this report include institutional characteristics such as location and sector; full-time, part-time, and full-time-equivalent (FTE) undergraduate enrollment; and institutional graduation rate within 150 percent of normal time.

*ACS*, conducted by the U.S. Census Bureau, is an annual nationwide survey that provides demographic, social, economic, and housing data. The survey asks for basic demographic information and detailed information about family and relationships, education, work, transportation, and income and benefits. Data are available for several geographic areas: The nation, states, congressional districts, metropolitan statistical areas, and counties. The market- and institutional-level dimensions in this report are based on data from the 2008 *ACS*, which correspond to the observational period of *BPS: 04/09*. Variables used in this report include median household income and educational attainment by race/ethnicity.

<sup>27</sup> For information on *BPS* survey design, visit <http://nces.ed.gov/surveys/bps/>.

<sup>28</sup> For information on *IPEDS* survey design, visit <http://nces.ed.gov/ipeds/>.

<sup>29</sup> For information on *ACS* survey design, visit [www.census.gov/acs/www/](http://www.census.gov/acs/www/).

## METHODOLOGY

### Market-Level Dimension

The market-level dimension incorporates both the expansion of for-profit institutions in and the affluence of metropolitan areas with at least three for-profit institutions. The expansion of for-profit institutions was measured by comparing their growth in a given metropolitan area from 2003 to 2009 with the sector's overall growth in the state during the same period. That is, the change from 2003 to 2009 in aggregated FTE enrollment for all for-profits in a given metro area was compared with the change during the same period in aggregated FTE enrollment for all for-profits in the state. If the change enrollment at the metro level was greater than that at the state level, the metro area experienced accelerated growth in the for-profit sector. If the change in enrollment at the state level was greater than or equal to that at the metro level, or if the metro did not have at least three for-profit institutions in both 2003 and 2009, the metro experienced average or less growth in the for-profit sector.

The affluence of metro areas was determined using median household income from 2008. The U.S. Census Bureau defines household income as the total income received in the calendar year by all household members 15 years old and over. Total income includes wage or salary income, interest, dividends, retirement income, public assistance or welfare payments, and all other income. For the market-level dimension, a metro area was considered to be affluent if its median household income is greater than \$50,000 or less affluent if median household income is less than or equal to \$50,000.

### Institutional-Level Dimension

The institutional-level dimension adds institutional degree of specialization to the for-profit growth criteria from the market-level dimension. To determine institutional specialization, the ratio of full-time students relative to total undergraduate students was calculated for each for-profit institution for academic years 2003–04 and 2008–09. An institution was categorized as specialized only if 100 percent of its students attended full-time in both 2003–04 and 2008–09.

### Individual-Level Dimension

The individual-level dimension adds the way students engage the for-profit sector to institutional specialization from the institutional-level dimension. Student-level enrollment patterns by semester from academic years 2003–04 to 2008–09 were analyzed in order to determine how students engage the for-profit sector. Students were required to have at least one FTE month of enrollment in any given semester; any enrollment of less than one FTE month was treated as a one-semester stop-out. Any enrollment that occurred after a stop-out lasting longer than four semesters was wiped from the records. A student was considered exclusively enrolled in the for-profit sector if they spent their entire postsecondary career in the for-profit sector, regardless of the number and level of institutions.

### From Classification to Outcomes

This report highlights two outcomes of interest: Institutional graduation rates and students' degree attainment rates. Institutional graduation rates are defined as the number of students in a cohort of full-time, first-time, degree/certificate-seeking undergraduates who completed their program of study within 150 percent of normal time. Taken from *BPS*, student-level degree attainment rates are defined as the number of students in a cohort of first-time undergraduates who earn a certificate or degree within a given six-year period. Student-level data reveal much more than degree attainment; students also report at the end of the six-year period whether they are still enrolled or have completely dropped out of postsecondary education without earning a degree. Additionally, student-level data follow students from institution to institution and provide degree attainment information regardless of enrollment pattern.

<sup>30</sup> There are three or more for-profit institutions in 47 percent of the 359 MSAs in the data sample. Conversely, 189 MSAs did not meet the at-least-three threshold.

# APPENDIX B

## SUPPLEMENTAL TABLES

### TABLE B1

**SELECTED CHARACTERISTICS OF  
POSTSECONDARY EDUCATION  
INSTITUTIONS BY SECTOR**

Institutional Sector	Number of Institutions (2009) <sup>a</sup>	Total FTE Enrollment (2009) <sup>a</sup>	Total Headcount Enrollment (2004) <sup>b</sup>	Total Headcount Enrollment (2008) <sup>c</sup>	First-Time Enrollment (AY03–04) <sup>d</sup>	Institutional Graduation Rate
Public 4-year	674	5,578,100	6,103,313	6,691,374	1,015,655	46.4%
Private 4-year	1,630	2,729,714	2,749,463	2,947,442	532,170	56.5%
For-profit 4-year	542	376,443	595,736	1,013,612	118,343	45.0%
Public 2-year	1,144	3,452,835	8,480,084	9,107,262	1,601,754	27.3%
Private 2-year	195	37,060	88,600	57,733	34,829	62.1%
For-profit 2-year	917	295,567	435,227	536,736	156,917	59.3%
Public less-than-2-year	254	37,275	88,029	95,364	52,431	66.8%
Private less-than-2-year	94	11,257	20,006	33,425	8,614	72.1%
For-profit less-than-2-year	1,530	208,837	512,395	444,952	224,702	70.5%

Source:

<sup>a</sup> U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2008–09

<sup>b</sup> U.S. Department of Education, *National Postsecondary Student Aid Study*, Academic Year 2003–04

<sup>c</sup> U.S. Department of Education, *National Postsecondary Student Aid Study*, Academic Year 2008–09

<sup>d</sup> U.S. Department of Education, *Beginning Postsecondary Students Study*, 2004–09

<sup>e</sup> U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2008–09

## TABLE B2

### SELECTED MARKET-LEVEL CHARACTERISTICS BY QUADRANT

Selected Characteristics	More Than \$50K + Above-Avg Growth	Less Than \$50K + Above-Avg Growth	Less Than \$50K + Avg or Less Growth	More Than \$50K + Avg or Less Growth
Number of metropolitan areas	29	23	63	55
Number of postsecondary institutions	1,043	408	932	2,337
Number of for-profit institutions	501	202	475	1,146
For-profit enrollment [full-time equivalent, fall 2008]	216,841	69,600	165,356	465,984
For-profit enrollment [full-time equivalent, fall 2003]	131,677	38,348	112,689	364,218
Percentage change in for-profit enrollment, 2003–2008	65%	81%	47%	28%
Average median household income	\$59,530	\$45,100	\$44,990	\$58,950
Average unemployment rate	5.1%	6.0%	5.7%	5.3%
Number of adults (25 and over)	34,424,712	10,407,692	25,014,738	74,218,864
Number with a postsecondary credential	13,508,428	3,305,561	7,953,203	28,734,178
Of those with a credential,				
Percentage White	44%	47%	49%	45%
Percentage African-American	5%	6%	5%	5%
Percentage Latino	42%	44%	43%	42%
Percentage Other/Multi-race	8%	4%	3%	8%
Number without a postsecondary credential	20,916,284	7,102,131	17,061,535	45,484,686
Of those without a credential,				
Percentage White	44%	46%	48%	45%
Percentage African-American	9%	9%	8%	9%
Percentage Latino	40%	42%	42%	40%
Percentage Other/Multi-race	7%	3%	2%	7%

Source: U.S. Census Bureau, *American Community Survey*, 2008; U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2003–04 and 2008–09; U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, 2008; authors' calculation

## TABLE B3

### SELECTED INSTITUTIONAL-LEVEL CHARACTERISTICS BY QUADRANT

Selected Characteristics	Above-Avg Growth + Specialized	Avg or Less Growth + Specialized	Avg or Less Growth + Comprehensive	Above Avg Growth + Comprehensive
Number of for-profit institutions [2008]	227	556	1,046	474
For-profit enrollment [full-time equivalent, fall 2008]	90,676	244,022	368,287	145,201
For-profit enrollment [full-time equivalent, fall 2003]	76,359	234,279	288,549	100,033
Percentage change in for-profit enrollment [2003 to 2008]	18.7%	4.0%	27.6%	45.2%
Percentage with full-time only enrollment	100%	100%	0%	0%
Percentage of part-time enrollment	0%	0%	28%	26%
<b>Institutional level</b>				
Four-year	25	66	256	105
Two-year	80	228	296	133
Less-than-two-year	122	262	494	236
Two-year cohort default rate	12.9%	12.2%	11.3%	11.7%

Source: U.S. Department of Education, Integrated Postsecondary Education Data System, Academic Year 2003–04 and 2008–09; U.S. Department of Education, Office of Postsecondary Education, FY2009 two-year cohort default rates; authors' calculations

## TABLE B4

### INDIVIDUAL-LEVEL CHARACTERISTICS BY QUADRANT, 2003–09

Selected Characteristics	Specialized + Only FP Sector	Comprehensive + Only FP Sector	Comprehensive + Mixed Sectors	Specialized + Mixed Sectors
Enrolled exclusively in for-profit sector	100.0%	100.0%	0.0%	0.0%
Enrolled in other types of postsecondary institutions	0.0%	0.0%	100.0%	100.0%
<b>Initial institutional level</b>				
Four-year	7.1%	36.8%	33.0%	15.2%
Two-year	35.1%	31.6%	56.0%	55.7%
Less-than-two-year	57.8%	31.6%	11.0%	29.1%
<b>Race/ethnicity</b>				
Percentage White	38.5%	47.3%	48.6%	37.8%
Percentage African-American	21.0%	26.9%	28.8%	21.7%
Percentage Latino	32.6%	17.3%	14.2%	30.2%
Percentage Other/Multi-race	7.9%	8.5%	8.3%	10.3%
<b>Income percentile rank (2003)</b>				
Lowest (25th percentile or less)	44.0%	39.5%	31.9%	40.8%
Middle (26th to 75th percentile)	46.9%	51.3%	55.0%	44.6%
Highest (greater than 75th percentile)	9.2%	9.2%	13.1%	14.6%
<b>Program of study</b>				
Career and technical majors	86.6%	79.1%	71.6%	80.8%
Academic majors	13.4%	20.9%	28.4%	19.2%
Initial expectation at least a BA degree	52.8%	68.3%	87.0%	80.6%

Source: U.S. Department of Education, *Beginning Postsecondary Students Study*, 2004–09



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