

**From:** Lee Godown [lgodown@pstrategies.com]  
**Sent:** Wednesday, August 19, 2009 9:51 AM  
**To:** Manheimer, Ann  
**Subject:** Meeting today/Wednesday 8/19

**Importance:** High

Ann:

We'll see you this afternoon (Wed) at 1:00pm at the department, Room 7E312. Looking forward to it, and thanks for taking the time.

Lee

--

Lee Godown  
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**From:** Lee Godown <[lgodown@pstrategies.com](mailto:lgodown@pstrategies.com)>  
**Date:** Mon, 17 Aug 2009 10:48:48 -0400  
**To:** "Manheimer, Ann" <[Ann.Manheimer@ed.gov](mailto:Ann.Manheimer@ed.gov)>  
**Conversation:** REQUEST - Pursuant to For-Profit Education/CPMG  
**Subject:** Re: REQUEST - Pursuant to For-Profit Education/CPMG

Good morning, Ann!

We are looking forward to our meeting on Wednesday this week

at your office. For reference, attached is a 3 pager on subject of what we'd like to brief on that I think I sent earlier, but want to make sure. From this side, attendees will be me, Mr. Kent McGaughey and Mr. Antal Desai (Kent and Antal from CPMG investments). My bio is attached.

**R. Kent McGaughey, Jr.** is a Managing Director and shareholder of CPMG, Inc. Prior to joining CPMG's predecessor, Cardinal, in 1997, Mr. McGaughey worked in investment banking at Simmons & Company International. Mr. McGaughey currently serves on the boards of Arcadia Exploration and Production Company, Mandiant Corporation and Reata Pharmaceuticals, Inc. *BA: University of Texas (Summa Cum Laude and member of Phi Beta Kappa). MBA: Harvard Business School.*

**Antal R. Desai** is a principal of CPMG, Inc. Prior to joining CPMG in 2004, Mr. Desai worked as a portfolio analyst at WhiteHorse Capital Partners, L.P., a Dallas-based investment firm. *BS: University of Pennsylvania, The Wharton School. MBA: University of Pennsylvania, The Wharton School.*

Do you have a rough idea of who will attend from the department's side? Thanks!

Lee

--  
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**From:** "Manheimer, Ann" <[Ann.Manheimer@ed.gov](mailto:Ann.Manheimer@ed.gov)>  
**Date:** Wed, 5 Aug 2009 15:20:08 -0500  
**To:** 'Lee Godown' <[lgodown@pstrategies.com](mailto:lgodown@pstrategies.com)>  
**Subject:** RE: REQUEST - Pursuant to For-Profit Education/CPMG

We are located at 400 Maryland Ave SW. If you use metro, take the L'Enfant Plaza exit toward Smithsonian or Maryland Ave. We will be in room 7E312

**From:** Lee Godown [<mailto:lgodown@pstrategies.com>]  
**Sent:** Wednesday, August 05, 2009 4:17 PM  
**To:** Manheimer, Ann  
**Subject:** Re: REQUEST - Pursuant to For-Profit Education/CPMG

Hi, Ann!

I checked, and 1:00pm on Wed., August 19th is great for all three of us attending. Very much appreciate you getting back to us, and let us know where we should come.

Lee

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**From:** Lee Godown <[lgodown@pstrategies.com](mailto:lgodown@pstrategies.com)>  
**Date:** Wed, 05 Aug 2009 12:15:15 -0400

**To:** "Manheimer, Ann" <[Ann.Manheimer@ed.gov](mailto:Ann.Manheimer@ed.gov)>

**Conversation:** REQUEST - Pursuant to For-Profit Education/CPMG

**Subject:** Re: REQUEST - Pursuant to For-Profit Education/CPMG

Others of group are getting into town morning of 13th, but looks like not until late morning – afternoon on that Thurs free. Would Friday the 14th in the morning work?

Sorry to be such a pain, and thanks for your help.

Lee

--

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**From:** "Manheimer, Ann" <[Ann.Manheimer@ed.gov](mailto:Ann.Manheimer@ed.gov)>

**Date:** Wed, 5 Aug 2009 11:03:04 -0500

**To:** 'Lee Godown' <[lgodown@pstrategies.com](mailto:lgodown@pstrategies.com)>

**Subject:** RE: REQUEST - Pursuant to For-Profit Education/CPMG

Could you do 3:00 on the 12th or will you be out of town?

**From:** Lee Godown [<mailto:lgodown@pstrategies.com>]

**Sent:** Wednesday, August 05, 2009 11:54 AM

**To:** Manheimer, Ann

**Subject:** Re: REQUEST - Pursuant to For-Profit Education/CPMG

Ann:

I beg your pardon... Looks like flight schedules are conspiring against a 10:00am meeting on 8/13. Would 2:00 or 3:00pm work instead?

Thanks!

Lee

--

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**From:** "Manheimer, Ann" <[Ann.Manheimer@ed.gov](mailto:Ann.Manheimer@ed.gov)>  
**Date:** Wed, 5 Aug 2009 09:26:02 -0500  
**To:** "'lgodown@pstrategies.com'" <[lgodown@pstrategies.com](mailto:lgodown@pstrategies.com)>  
**Subject:** RE: REQUEST - Pursuant to For-Profit Education/CPMG

Will 10:00 on the 13th work?

**From:** Lee Godown [<mailto:lgodown@pstrategies.com>]  
**Sent:** Tuesday, August 04, 2009 4:54 PM  
**To:** Manheimer, Ann  
**Subject:** Re: REQUEST - Pursuant to For-Profit Education/CPMG

Ann:

Yes - we'd very much like to come in and brief you/staff on some of the information we have compiled.

I know you all are terribly busy. Would the morning of one day, Wed/Thurs the 12/13 or 19/20 be possible?

Lee

--

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**From:** "Manheimer, Ann"

**Date:** Tue, 4 Aug 2009 15:47:07 -0500

**To:** 'lgodown@pstrategies.com' <[lgodown@pstrategies.com](mailto:lgodown@pstrategies.com)>

**Subject:** RE: REQUEST - Pursuant to For-Profit Education/CPMG

Your correspondence of July 8 to Bob Shireman was forwarded to me for a reply. I apologize for the delay in getting back to you. If you are still interested in sharing the information, I would be happy to speak with you on Bob's behalf and I can arrange a meeting with our senior policy officials. Is there a day and or a morning/afternoon over the next couple of weeks that would be convenient for you? - Ann Manheimer

**From:** Lee Godown [<mailto:lgodown@pstrategies.com>]

**Sent:** Wednesday, July 08, 2009 11:59 AM

**To:** Shireman, Bob

**Subject:** REQUEST - Pursuant to For-Profit Education/CPMG

**Importance:** High

Dear Bob:

Don't know if you remember me, but until February of 2007 (when I retired from Capitol Hill service after 27 years) I was Congresswoman Loretta Sanchez's CoS, and have worked for 5

Members in House/on Dem side. I'm now doing the consulting thing, and am the resident Dem here at PSI. Short bio attached.

I have a client (CPMG Investments) who has put together an impressive body of statistics and information on the for-profit education industry. They have attended your three, recent pre-regulatory meetings around the country in that regard. Would you have 30 minutes sometime later this month for them to give you a brief update on their research into for profit education?

They also have quite a database of individuals (students, recruiters, etc.) who have been taken advantage of that they are willing to turn over.

We have been meeting with George Miller's and Ted Kennedy's staffers (Christine Leonard, Zuckerman) for about a month on this as well.

I've attached a 3-pager that sort of summarizes and, as I say, we have other information and resources that we'd be happy to turn over to you (people with personal for profit experiences, etc.) that we can bring along that day.

I know it is a busy time, and thank you for your consideration.

Lee

--

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CPMG  
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## FOR-PROFIT EDUCATION: THE DAMAGE TO STUDENTS AND TAXPAYERS

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***"Secretary Duncan will use only one test when deciding what ideas to support with your precious tax dollars: It's not whether an idea is liberal or conservative, but whether it works...I reject a system that rewards failure and protects a person from its consequences."***

**~President Barack Obama**

**(remarks to the Hispanic Chamber of  
Commerce, 03/10/09, [www.nytimes.com](http://www.nytimes.com))**

Federal student financial aid programs are intended to enable all qualified Americans access to postsecondary education and training. The logic behind this public investment in America's future is that federally financed postsecondary programs – even if they result in significant indebtedness to former students – generally enhance the wages and productivity of students, leaving them and the nation better off than they would have been with only a high school diploma. Contrary to our nation's education mission, the for-profit education industry enriches its executives and owners at the expense of students and taxpayers.

For-profit schools breakdown into two categories: 1) vocational for-profit schools (trade schools that are non-degree granting), and 2) non-vocational for-profit schools (general education or career colleges that are degree granting). Industry growth is heavily weighted toward non-vocational, degree granting for-profit schools, which have increasingly moved up the academic food chain and now offer even doctoral degrees. However, both categories are aggressively abusing federal funds made available under Title IV of the Higher Education Act.

For-profit schools are marketed in such a way as to promote the perception that they provide a quality education to an undereducated, underserved adult population. Non-vocational degree paths include general business, psychology, management and education. Vocational degree paths include security guard training, fairly low-threshold IT skills, and hair design. The perception of legitimacy that the industry promotes differs markedly from reality:

- For-profit schools are among the most sophisticated, unscrupulous, and destructive direct marketing businesses that exist in the United States today. These businesses prey on undereducated and underserved adult populations, selling them false hope, and convincing them to borrow vast sums of money from the U.S. government, which they have no realistic prospect of repaying;
- These businesses often wreck lives, while diverting an enormous percentage of Title IV funding to executive compensation and owner profit. The publicly traded for-profit companies are among the most profitable companies listed on U.S. stock exchanges (98<sup>th</sup> percentile). For-profit executives have amassed fortunes that extend into the billions.

The facts:

- The for-profit education industry effectively has 1 customer: the U.S. Government. The industry derives approximately 75% of its revenue directly from federal financial aid programs. In 2008, the for-profit industry received \$21 billion in federal funds, approximately 23% of total disbursements from the Pell Grant and FFEL and Direct Loan programs;
- Having increased 6-fold since 1994, non-vocational for-profit enrollments now account for 82% of for-profit enrollments. The majority of for-profit industry growth has taken place on-line. With zero upfront cost to the student, no geographic boundaries, and no responsibility for educational outcomes, on-line, for-profit recruiting machines have exploded in a manner that is comparable in motivation, magnitude and consequence to U.S. sub-prime home lending;



- For-profit students pay tuition 3-5 times in excess of what they would pay at a typical community college and equivalent to what they would pay at a well-regarded, private non-profit college. Automatic annual tuition price increases are common despite already over-sized profitability; and
- Despite their high tuition, for-profit schools spend one-fifth to one-half of what not-for-profit schools spend on actual instruction;
- For-profit learning experiences and outcomes are poor, and are therefore closely guarded by the industry. For-profit schools actively hide their abysmal graduation rates, default rates and real job placement rates from potential students, making it difficult for students to understand the unfavorable cost/benefit ratio associated with enrolling;
- Approximately 75% of for-profit students dropout without graduating, and approximately 40% of money borrowed by for-profit students will enter default. Reported cohort default rates obscure actual default activity as a result of manipulative practices employed by the industry to push defaults outside of the 2-year definitional window;
- The publicly traded for-profits rely heavily upon proceeds from U.S. federal student aid programs to meet aggressive Wall Street imposed recruiting targets and, in the process, line the pockets of executives and shareholders. Out of every dollar for-profits receive, approximately 26 cents are spent on recruiting more students, 54 cents accrue to executives and shareholders and only 22 cents are spent on instruction; and
- The majority of for-profit students spend a material portion of federal financial aid refunds on non-educational expenses - an outright violation of federal student aid rules. The industry refers to this diversion practice as "walking around money" or "Pell runners." While this practice violates federal student aid rules, it serves as a powerful hook to lure lower income populations into the recruiting machines.

The potent combination of unchecked Title IV funding and sophisticated direct marketing programs is fueling the for-profit enrollment boom. For-profit students account for 9% of total post-secondary enrollments but receive 23% of the funding from Pell Grant and FFEL/Direct Loan programs. As a result of watered-down regulations, recruiters ("enrollment counselors") operate under the intense pressure of pay-for-performance compensation structures, which promote boiler-room-like ecosystems and unethical behavior. Research indicates that enrollment counselor turnover is in excess of 50% per year. For every 250 leads a counselor pursues, he/she will sign-up 12 students - of whom 9 eventually drop out, and only 3 graduate. The typical student leaves the for-profit system with more debt, unchanged income, unchanged job status, and no degree. The few who do graduate often realize that their degrees are viewed by many employers as worthless and must deal with a debt burden that post-graduate income and job status cannot justify.

#### THE FOR-PROFIT STUDENT...

- Majority are 30+ years of age;
- Majority are female and ethnic minorities;
- Majority of students receive Title IV aid; and
- 75% dropout without achieving a degree.

#### KEY SIGNS OF ABUSE...

- Diversion of a large percentage of Title IV funds to sales and marketing activities (> 20%);
- High Title IV reliance (>65%);
- Automatic 3-5% tuition price increases every year (despite high profitability);
- Large % of internet-based students (>50%);
- Incentive compensation programs for recruiters based on enrollment targets;
- Low instructional spending as % of revenues (< 40%);

- High drop-out rates (> 50%) and low graduation rates (<25%); and
- High cumulative lifetime default rates (> 25%).

Note that for-profit schools are exceeding the reasonable thresholds outlined above.

#### OFF THE RECORD: WHAT THE FOR-PROFIT LOBBY DOES NOT WANT YOU TO HEAR

- ***This is a corporation; not a social entity. Coming here is not a rite of passage. We are not trying to develop their [students] value systems or go in for that 'expand their minds' bullshit*** - John Sperling, Chairman, Apollo Group, 05/2002 ("Phoenix Ascending", Ana Marie Cox, In These Times, May 13, 2002). Estimated net worth derived from Title IV: \$1 billion+
- ***I had said consistently and I certainly want our owners to understand this, that the return on capital on opening new campuses is about the best investment that I've ever seen...*** - Robert Silberman, Strayer Education, Q308 earnings call, 10/30/08. Estimated net worth derived from Title IV: \$100 million
- ***Again, we're very conscious on a pricing level. We certainly don't want to leave money on the table*** - Lois Martin, CFO, Capella University, Q109 earnings call, 04/30/09. Estimated net worth derived from Title IV: \$5 million

#### WHAT TO DO?

- Regulation of for-profit education should be revisited. The House Education and Labor Committee and the Senate Health, Education, Labor and Pensions Committee should investigate and increase oversight of the for-profit education system;
- Legislative safeguards intended for the protection of students and taxpayers should be reassessed, including the 90/10 rule, recruiter incentive compensation rules, lifetime default rate thresholds, and the 50% rule (regarding distance education);
- Require schools to disclose outcomes-based data such as drop-out rates, graduation rates, placement rates, lifetime default rates, and total cost of education (including interest expense on loans) to potential students in addition to recruiter conflicts-of-interest;
- Regional and national accreditation agencies should be audited to determine effectiveness, and accrediting bodies that are found to be disproportionately associated with low-quality programs with poor outcomes should be barred from performing any gatekeeping functions for Title IV;
- Disallow "walking around money"; and
- An independent evaluation of the for-profit sector is needed. The General Accountability Office should begin studying the sector with a focus on sales and marketing practices, recruiter compensation practices, default rate management practices, tuition pricing strategies, drop-out and graduation rates, and lifetime default rates.

***Why should American taxpayers spend 2-5 times more to produce 1 graduate from a for-profit "school" compared to 1 graduate from a non-profit college or university?***

