From: Antal Desai [adesai@cpmg-inc.com]
Sent: Tuesday, April 20, 2010 1:11 PM
To: Manheimer, Ann
Subject: RE: schedules

Ann,

She is doing ok - thanks for asking. Johnette Early, who has performed research at homeless shelters for the past year, is compiling the data. I should have something to send your way tomorrow.

Antal

From: Manheimer, Ann [mailto:Ann.Manheimer@ed.gov]
Sent: Tuesday, April 20, 2010 8:39 AM
To: Antal Desai
Subject: RE: schedules

Hope all is well with your wife – pls don't forget about the information on the shelters - Ann

---

From: Antal Desai [mailto:adesai@cpmg-inc.com]
Sent: Monday, April 19, 2010 7:00 PM
To: Manheimer, Ann
Subject: RE: schedules

Ann,

Sorry for missing the call this morning. Let me know if you have any further questions.

Antal

From: Manheimer, Ann [mailto:Ann.Manheimer@ed.gov]
Sent: Sunday, April 18, 2010 1:15 PM
To: Antal Desai
Cc: Bergeron, David
Subject: RE: schedules

Antal - not sure you rec'd the calendar invite, so -- call 1.877.937.6095; at the prompt, enter 8623749# - 9:00 am, eastern time - Ann

---

From: Antal Desai [adesai@cpmg-inc.com]
Sent: Friday, April 16, 2010 11:20 AM
To: Manheimer, Ann
Subject: RE: schedules

Ann,

Why don't we do it by phone? At what time and which number should we call?

From: Kent McGaughy [kent@cpmg-inc.com]
Sent: Monday, April 19, 2010 3:07 PM
To: Manheimer, Ann; Antal Desai
Cc: Bergeron, David
Subject: RE: EDU Conference Call

David, Ann --

I enjoyed catching up with you guys this morning. Please don't hesitate to call or email if you have questions after reviewing the memo.

Best,

Kent McGaughy

From: Manheimer, Ann [mailto:Ann.Manheimer@ed.gov]
Sent: Monday, April 19, 2010 7:54 AM
To: Antal Desai
Cc: Kent McGaughy; Bergeron, David
Subject: RE: EDU Conference Call

David's schedule is packed – let's go ahead with the 9:00 - Ann

---

From: Antal Desai [mailto:adesai@cpmg-inc.com]
Sent: Sunday, April 18, 2010 11:13 PM
To: Manheimer, Ann
Cc: Kent McGaughy; Bergeron, David
Subject: RE: EDU Conference Call

Ann,

I am very sorry for the late notice, but I had an emergent medical need arise this evening that will require me to be at the doctor's office first thing tomorrow morning.

Let us know if you and David have flexibility to move the call to the afternoon. If that is not possible or if we do not reach you in time, Kent will dial-in as originally scheduled and walk you through our thoughts.

Regards,
Antal

From: Manheimer, Ann [mailto:Ann.Manheimer@ed.gov]
Sent: Sunday, April 18, 2010 6:42 PM
To: Antal Desai
Subject: Re: EDU Conference Call

Ok

Sent from my BlackBerry Wireless Handheld

From: Antal Desai <adesai@cpmg-inc.com>
To: Manheimer, Ann
Cc: Bergeron, David; Kent McGaughy <kent@cpmg-inc.com>
Sent: Sun Apr 18 15:46:05 2010
Subject: EDU Conference Call

Hi Ann,

I didn't receive it, but we will dial-in tomorrow at 9:00am ET (8:00am CT).

We are looking forward to it.

Thanks,
Antal

p.s. Attached are the reference materials for our call.

From: Manheimer, Ann [mailto:Ann.Manheimer@ed.gov]
Sent: Sunday, April 18, 2010 1:15 PM
To: Antal Desai
Cc: Bergeron, David
Subject: RE: schedules

Antal - not sure you rec'd the calendar invite, so -- call 1.877.937.6095; at the prompt, enter 8623749# - 9:00 am, eastern time - Ann

---

From: Antal Desai [adesai@cpmg-inc.com]
Sent: Friday, April 16, 2010 11:20 AM
To: Manheimer, Ann
Subject: RE: schedules

Ann,

Why don't we do it by phone? At what time and which number should we call?

Antal

From: Manheimer, Ann [mailto:Ann.Manheimer@ed.gov]
Sent: Thursday, April 15, 2010 4:27 PM
To: Antal Desai
Subject: RE: schedules

I can only get us about 30 minutes with David – 9 am on Monday – his office – will this work? And/or do you want to do this by phone? - Ann

From: Antal Desai [mailto:adesai@cpmg-inc.com]
Sent: Thursday, April 15, 2010 11:49 AM
To: Manheimer, Ann
Subject: schedules

Ann,

Anytime Monday, Tuesday and Wednesday of next week work for Kent and me.

Thanks,
Antal

CPMG, Inc.
2100 McKinney, Suite 1770
Dallas, Texas 75201
O: (214) 871-6859
F: (214) 871-6837
adesai@cpmg-inc.com

GAINFUL EMPLOYMENT SUGGESTIONS

April 19, 2010

To: Manheimer, Ann
Subject: schedules

Ann,

Anytime Monday, Tuesday and Wednesday of next week work for Kent and me.

Thanks,
Antal

CPMG, Inc.
2100 McKinney, Suite 1770
Dallas, Texas 75201
O: (214) 871-6859
F: (214) 871-6837
adesai@cpmg-inc.com

SECTION I:

ACTION IS NECESSARY TODAY

WHY ACTION IS NECESSARY TODAY

Educational Outcomes Pathetic; Default Rates Disastrous

The mission of the Title IV Program is to improve lives and advance America by providing access to education. Conversely, the mission of the For-Profit Education Industry is to indiscriminately originate loans that qualify for Title IV by employing sophisticated and manipulative direct sales strategies. The misaligned For-Profit Education Industry is destroying the lives of the students it recruits; if left unchecked, the For-Profit Education Industry will destroy America's post-secondary education system.

- For-Profit Education Companies are <u>not</u> "Market Funded"; approximately **95%** of students attending these schools receive federal student loans from the Title IV program [1]
- A small fraction of students attending For-Profit schools graduate
  - Only **22%** of students who enter for-profit schools seeking a bachelors degree graduate within 6 years [2]
- High drop-out rates and excessive debt levels lead to shockingly high default rates at For-Profit schools
  - Department of Education ("DoEd") projects that **47%** of the dollars borrowed by students in the 2007 cohort attending 2-year proprietary schools will default. This default rate number is exploding; it was 26% three years ago [3] [4]
- Students who graduate from For-Profit schools are not better off than those who drop out [5]
  - The sub-par quality of a For-Profit Education does not justify the debt students incur to graduate. A For-Profit graduate is only 33% less likely to default than is a For-Profit drop-out. In contrast, a non-profit graduate is 80% less likely to default than a non-profit drop-out
  - A student who graduates from a For-Profit school is **8x** more likely to default on student debt than is a student who graduates from a <u>public, non-profit</u> school
  - A student who graduates from a For-Profit school is **6x** more likely to default on student debt than is a student who graduates from a <u>private, non-profit</u> school

[1] source: 2007-08 National Postsecondary Student Aid Study, Table 3, page 7
[2] source: NCES 2010-142
[3] budget lifetime default rates for 2-year proprietary, cohort year 2007. Source: http://www.ifap.ed.gov/eannouncements/attachments/121409EACDRlifetimerateattachment2ratechartPPD.pdf. Data for 4-year schools not publicly-available.
[4] budget lifetime default rates for 2-year proprietary, cohort year 2004, published in November 2006. Source: Department of Education
[5] analysis based on data on page 8 of a report titled *"What is Gainful Employment? What is Affordable Debt?"*, Mark Kantrowitz. March 1, 2010

WHY ACTION IS NECESSARY TODAY

Illegitimate Schools Harm Students And Crowd Out Legitimate Educational Institutions

In FY2010, DoEd will provide $32.5B in loan commitments to students attending For-Profit schools. Aggressively growing enrollments at 15% per year, the For-Profit Education Industry is on pace to divert 3 million students from legitimate educational institutions by 2012. By 2012, our analysis shows that For-Profit graduation rates will have fallen to 10% and that lifetime cohort default rates will have risen to 69%

The chart below shows that For-Profit schools create **more defaults than diplomas**. A mere 0.4 million students in the 2008 For-Profit cohort will graduate; disturbingly **2.3x** more students (0.9 million) will default. Unless the DoEd moves to institute safeguards today, our analysis shows that defaulting students will swamp graduating students by **6.9x** in 2012

	Historical Data per DoEd		*If Status Quo persists....*	
	2006	2008	2010E	2012E
Enrollment Data [1]				
For-Profit Fall Enrollments	1,380,355	1,797,563	2,336,832	3,037,881
% Growth		30%	30%	30%
Total Fall Enrollments	18,205,474	19,574,395	21,180,274	23,011,930
For-Profit Students as % of Total Students	8%	9%	11%	13%
Loan Volume [2]				
For-Profit Loan Volume	$ 13,285,457,810	$ 19,900,000,000	$ 32,545,000,000	$ 42,308,500,000
% Growth		50%	64%	30%
Total Loan Volume	$ 68,285,457,810	$ 86,521,739,130	$ 117,259,281,250	$ 132,105,638,125
For-Profit Loan Volume as % of Total Loan Volume	19%	23%	28%	32%
For-Profit Outcomes				
6-year Graduation Rates [3]	32.6%	22.0%	14.8%	10.0%
% Change		-33%	-33%	-33%
Budget Lifetime Default Rates [4]	44%	51%	59%	69%
% Change		17%	17%	17%
Projected Students who will Graduate [5]	449,996	395,464	346,941	304,371
Projected Students who will Default [6]	600,454	912,831	1,385,323	2,102,382
Ratio of Defaulting Students to Graduating Students	1.3x	2.3x	4.0x	6.9x

Note: footnotes provided in appendix

WHY ACTION IS NECESSARY TODAY

For-profit education companies, like subprime mortgage originators, recruit borrowers while employing ZERO underwriting standards and transferring 100% of originated loan risk to unrelated parties. In the absence of major reform, this recipe will end disastrously

- **<u>PROBLEM</u>: EXCESSIVE DEBT => DEFAULT => JOBLESSNESS => HOMELESSNESS**
  - Proprietary schools offer the majority of GE-bound programs
  - Excessive debt leads to default. Default leads to wrecked credit. Wrecked credit leads to joblessness. Prolonged joblessness and wrecked credit leads to homelessness

- **<u>CAUSE</u>: LIKE IN SUBPRIME MORTGAGE ORIGINATION, FOR-PROFIT SCHOOLS PROFIT SOLELY ON VOLUME AND SIZE OF LOANS ORIGINATED**
  - Loan origination standards rapidly deteriorate when underwriting standards are absent and / or loan originators bear no risk
  - In the absence of outcomes-related gate keeping and meaningful default rate compliance requirements, schools (acting as loan originators on behalf of taxpayers) are incentivized to maximize the quantity and size of loan packages without regard for students' ability to perform on the loans
  - Currently, there is horrible misalignment between For-Profit schools and other key stakeholders: student (debtor), the DoEd (Title IV gatekeeper) and taxpayers (debt holder)

- **<u>2 SOLUTIONS</u>: FORCE SCHOOLS TO SHOULDER FINANCIAL RISK AND / OR ESTABLISH REAL UNDERWRITING STANDARDS**
  - Option #1: Impose financial risk on loan originators (require that schools share in the losses associated with defaults)
  - Option #2: Impose underwriting standards on loan originators (the DoEd's GE framework provides a well-structured standard)

- **THE MOST PURE, "MARKET-BASED" SOLUTION WOULD BE TO PURSUE OPTION #1, IMPLEMENTING A FINANCIAL RISK SHARING MODEL. OPTION #2, WHICH WE ACCEPT AS A POLITICALLY MORE EXPEDIENT FIRST STEP, IS A MORE SUBTLE APPROACH AND FOCUSES ON CREATING UNDERWRITING STANDARDS FOR NON-COMPLIANT PROGRAMS WITHIN THE CONTEXT OF THE DoEd's EXISTING GE FRAMEWORK**
  - After extensive research and analysis, we have concluded that there are no viable options other than #1 and #2

SECTION II:

GAINFUL EMPLOYMENT WITH LOW RISK PROGRAM EXEMPTION

LOW RISK PROGRAM EXEMPTION

- We propsose that DoEd should introduce a **Low Risk Program Exemption**, which would be available to all programs whose current total program tuition is less than $20,000. This exemption is consistent with Congress' existing debt repayment framework
  - $20,000 is justified by applying Congress' income-based repayment (IBR) methodology to median US income earned by US workers who have attended college (see appendix)
- Low Risk Programs would have no additional compliance requirements under DoEd's GE regulation
  - The exemption eliminates administrative burden for Low Risk Programs, which account for a material percentage of programs subject to GE
  - The exemption significantly lowers administrative burden for the DoEd, allowing DoEd to focus resources on high-risk schools
- Programs that do not qualify under the Low Risk Exemption would be subject to additional compliance requirements under GE to determine Title IV eligibility (see page 9)

SUGGESTED GE REVISIONS

Resist For-Profit executive and lobbyist stall tactics

- For programs that do not qualify under the Low Risk Exemption, DoEd would calculate compliance with the currently proposed 8% debt to income cap formula

- Allow only <u>two</u> exemptions:
  - 1] Allow programs that comply with GE using actual student income to maintain Title IV eligibility
    - Allow actual income data only if data is available for greater than 75% of graduates in the program's prior fiscal year. Schools must provide DoEd with related backup data. DoEd would conduct frequent, random cross-checks of reported data with IRS databases
  - 2] Allow programs that demonstrate 90% repayment rates for graduates to maintain eligibility
    - As outlined in DoEd's proposal, exclude defaults, forbearances and deferments

- <u>Do not allow the 70% completion rate or 70% placement rate exemption [1]</u>
  - **This exemption is a gaping loophole that would allow excessive debt programs to continue to pillage Title IV and wreck student lives**
    - Regarding completion rates, we have enrolled in a meaningful sample of high-debt proprietary programs. We have seen first-hand that schools are passing students that fail in order to fraudulently pad persistence and graduation rates. We have no doubt that schools will abuse this loophole massively
    - Bogus self-reported placement statistics are inevitable if a placement exemption is allowed. High-priced programs that lead to high placement in minimum wage jobs would pass the 70% placement threshold and receive exemption
    - The "Actual Student Income" and "90% Repayment" exemptions provide programs that are complying with the spirit of the 70% completion rate and job placement exemptions to achieve compliance with GE

[1] To the extent the completion rate and placement rate exemption is impossible to avoid, require that the completion rate and placement rate thresholds are 85% <u>at the program level</u> with the following caveats: define completion rate as defined by IPEDS, but include all students. Define placement rate to include <u>all</u> students, not just graduates. Require that 85% of all students who entered the program 4 years prior be placed into a job. If a school does not already measure placement rates, do not allow it to qualify under this exemption until placement tracking system is implemented and qualified by DoEd

PATH FOR PROGRAMS THAT DO NOT QUALIFY UNDER THE LOW RISK PROGRAM EXEMPTION

- DoEd would determine compliance with GE for all programs that do not qualify under the Low Risk Program Exemption. High-price programs compliant with GE would face no additional compliance requirements or sanctions

- Non-compliant programs would be given two options:
  - **Option 1: Programs could maintain Title IV eligibility by entering a 1-year probationary period and achieving "pro forma compliance" with GE**
    - Allow non-compliant programs to maintain Title IV eligibility by enrolling in a 1-year probationary period. In order to enter probation, require non-compliant programs to pay a Title IV access fee of $5,000 for every student currently enrolled. DoEd would utilize fees to pay for incremental administrative and enforcement costs related to implementation of GE and other program integrity measures
    - During the probationary year, DoEd would require affected programs to achieve pro forma compliance with GE
      - Pro forma compliance would require schools to reduce tuition so that debt-to-income levels for current and incoming students are compliant on a pro forma basis (see appendix for detail)
    - As soon as a program becomes pro forma compliant, DoEd would restore Title IV eligibility for new students entering affected programs
      - Theoretically, a program could enter probation and become pro forma compliant on the same day, resulting in no disruption in Title IV funds to new students
    - Programs that do not achieve compliance by the end of the probationary year would lose Title IV eligibility for new students for 5 years

  - **Option 2: Programs could opt out of Title IV for new students but would still retain a clear path to regain access to Title IV**
    - Non-compliant programs that opt out of probation would be actively choosing not to participate in the Title IV program for new students
    - Schools with programs that opt out of probationary period would be required to post a list of non-compliant programs prominently on their website and disclose that prospective students looking to enroll in non-compliant programs are ineligible for federal student aid as a result of excessive debt burdens for graduates. The display should be similar in emphasis to the black box warning label that FDA requires for dangerous drugs
    - At any time, a school with non-compliant programs could elect Option 1

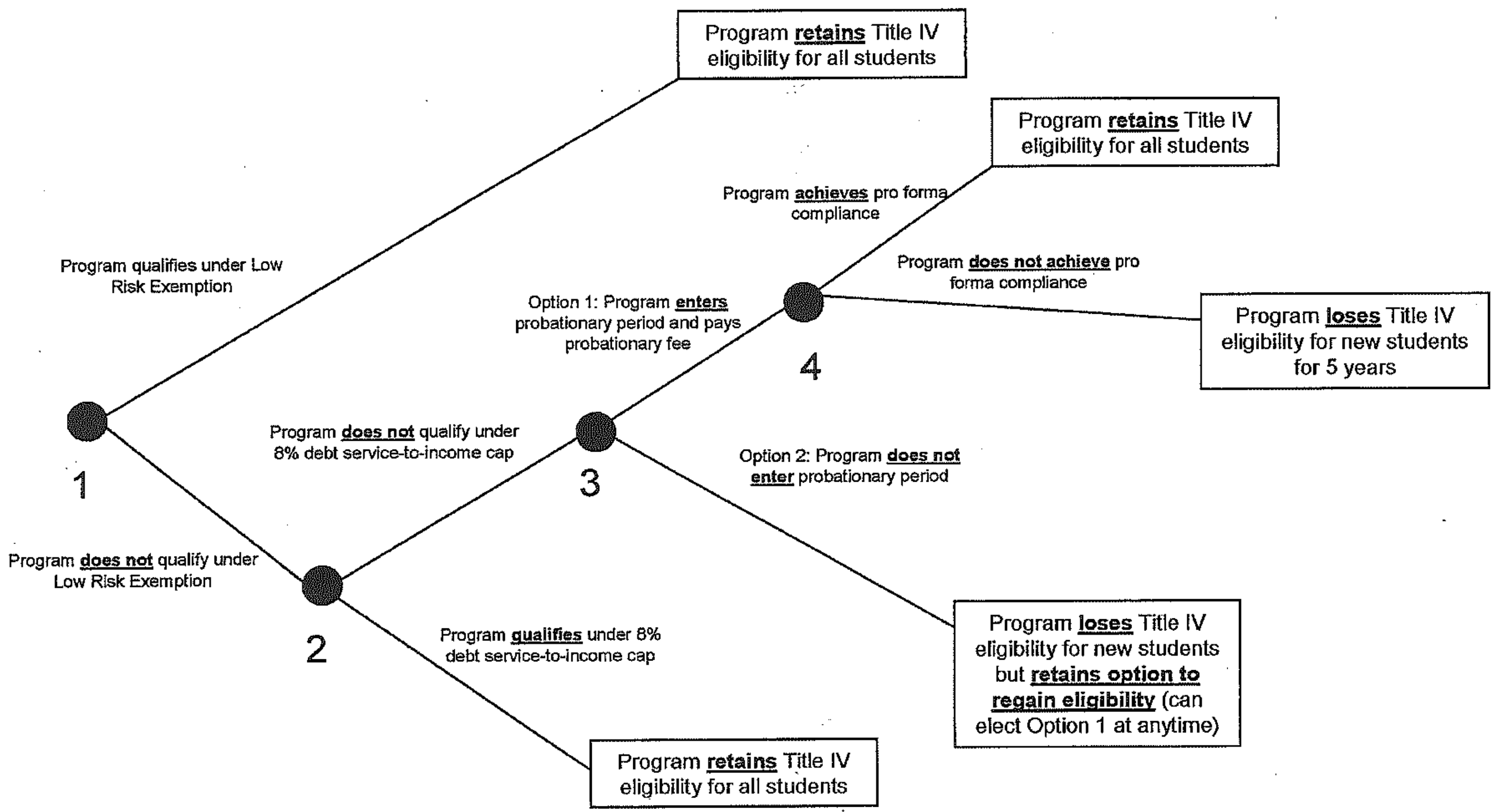
- Contrary to claims made by for-profit apologists, **100% of students currently enrolled in non-compliant programs would continue receiving federal financial aid**

- DoEd should encourage Low Risk and compliant programs to establish nationwide transfer arrangements for students attending non-compliant programs. Require that schools with non-compliant programs provide students a disclosure describing transfer opportunities to Low Risk and compliant programs. This offering would facilitate an orderly transition for students looking to transfer to programs providing gainful employment

- Capacity at compliant programs would quickly increase to replace market share previously held by non-compliant programs
  - Contrary to for-profit apologist claims, students would not be stranded under this proposal. Both for-profit and non-profit schools, particularly those online, have proven an ability to scale quickly with annual enrollment growth rates in excess of 20%

GE DECISION TREE SUMMARY

All outcomes retain Title IV eligibility for existing students



SECTION III:

CONCLUSION

SUMMARY OF PROPOSAL

STRENGTHEN GE WITHOUT OVER-BURDENING LOW RISK PROGRAMS BY PROVIDING A LOW RISK PROGRAM EXEMPTION

- DoEd should proceed with its proposed GE regulation and consider the following suggestions:
  - Introduce a "**Low Risk Program Exemption**" for programs where total program tuition is less than $20,000
  - For programs that do not qualify as Low Risk, DoEd should maintain the current GE proposal. DoEd should not include completion and placement rate exemptions. These loopholes would render GE meaningless

RESIST FOR-PROFIT INDUSTRY PLEAS TO SOFTEN EXISTING REGULATIONS

- These parties are trying to preserve a status quo that is devastating to students, legitimate programs and taxpayers

PROVIDE NON-COMPLIANT PROGRAMS WITH THE OPTION TO ENTER A 1-YEAR PROBATIONARY PERIOD THAT WOULD PRESERVE TITLE IV ELIGIBILITY

- All programs that are not Low Risk would be subject to the current GE proposal
- Allow programs that are non-compliant to maintain Title IV eligibility by enrolling in a 1-year probationary period. During the probationary year, schools would be required to make affected programs pro forma compliant with GE. As soon as a program becomes pro forma compliant, DoEd restore Title IV eligibility for new students entering affected programs. Require programs on probation to pay a Title IV access fee of $5,000 for every student currently enrolled
- Schools with non-compliant programs that opt out of probation would be electing not to participate in the Title IV program for new students. Schools that initially opt out of the probationary period could enter probation at any time
- Title IV funding would be available for existing students enrolled in all non-compliant programs

GE IS A WIN / WIN / WIN / WIN PROPOSITION FOR KEY STAKEHOLDERS

- **Students win** because risk of excessive debt and subsequent default dramatically decreases. Students attending non-compliant programs would retain access to Title IV. Prospective students would retain access to thousands of schools offering compliant programs
- **Compliant programs win**
  - Capacity would not decrease. Rather, market share would shift away from non-compliant programs to compliant programs
  - Importantly, as a result of the **Low Risk Program Exemption**, the administrative burden for Low Risk Programs, particularly those at community colleges, would be eliminated
- **DoEd and US taxpayers win** because they would be underwriting loans that will perform, and will be sending students to schools where education rather than maximum loan origination is the goal
- **For-Profit Schools win** because they maintain access to Title IV under a sustainable framework

Appendix

Historical and Projected For-Profit Enrollment Data

	Historical Data per DoEd		*If Status Quo persists....*	
	2006	2008	2010E	2012E
Enrollment Data [1]				
For-Profit Fall Enrollments	1,380,356	1,797,563	2,336,832	3,037,881
% Growth		30%	30%	30%
Total Fall Enrollments	18,205,474	19,574,395	21,180,274	23,011,930
For-Profit Students as % of Total Students	8%	9%	11%	13%
Loan Volume [2]				
For-Profit Loan Volume	$ 13,285,457,810	$ 19,900,000,000	$ 32,645,000,000	$ 42,308,500,000
% Growth		50%	64%	30%
Total Loan Volume	$ 68,285,457,810	$ 86,521,739,130	$ 117,259,281,250	$ 132,105,638,125
For-Profit Loan Volume as % of Total Loan Volume	19%	23%	28%	32%
For-Profit Outcomes				
6-year Graduation Rates [3]	32.6%	22.0%	14.8%	10.0%
% Change		-33%	-33%	-33%
Budget Lifetime Default Rates [4]	44%	51%	59%	69%
% Change		17%	17%	17%
Projected Students who will Graduate [5]	449,996	395,464	346,941	304,371
Projected Students who will Default [6]	600,454	912,831	1,385,323	2,102,382
Ratio of Defaulting Students to Graduating Students	1.3x	2.3x	4.0x	6.9x

[1] Source: 2006 and 2008 enrollment Data reflects Enrollment at Title IV Postsecondary Institutions for Fall 2006 and 2008.
Source: 2006 enrollment data per NCES 2008-173. 2008 enrollment data per NCES 2010-152.
2010 and 2012 enrollment data is estimated based on historical and expected growth rates.

[2] 2006-2012 loan volumes reflect annual gross commitment loan volumes for FFEL and Direct loans for Fiscal Years 2006-2012.
Source: 2006 data reflects FY2006 loan volume data per President's FY09 Budget, Student Loans Overview, pg. Q-24. 2006 data estimated using graph on pg. Q-24.
Source: 2008 data reflects FY 2008 loan volume data per President's FY10 Budget, Student Loans Overview, pg. T-24. 2008 data presented in text on pg. T-24.
FY 2010 data is estimated based on applying an estimated 2009-2010 growth rate to 2009 loan volume data 2009 loan volume data per President's FY11 Budget, Student Loans Overview, pg. T-25
FY 2012 data is estimated based on applying 2012E enrollment growth rates to 2010 loan volume data as presented in President's FY11 Budget, Student Loans Overview, pg. T-25

[3] Graduation rates reflect 6-year graduation rates of bachelor's or equivalent degree-seeking students at 4-year Title IV institutions.
Source: 2006 graduation rate data per NCES 2008-173. 2008 graduation rate data per NCES 2010-152.
2006 graduation rates reflect data for cohort year 2000. 2008 graduation rate data reflect data for cohort year 2002. Cohort year is based on initial enrollment.
2010E and 2012E graduation rates are for cohort years 2004 and 2006, respectively. Since data is not yet available, analysis assumes that historical changes in graduation rates are maintained.

[4] Budget lifetime default rates reflect estimated lifetime default rates for 2-year proprietary schools based on dollars for a projected cohort life of 20 years. Source: Department of Education.
2006 data reflects budget lifetime default data for the cohort year 2006. Data published by Department of Education in November 2009. Cohort year is based on origination date.
2008 data is estimated by applying 2006-2007 % change in default rates to 2007 default rate data of 47%. Data published by Department of Education in November 2009.
2010E and 2012E data reflects estimated budget lifetime default data for the cohort years 2010 and 2012, respectively. Since data is not yet available, analysis assumes historical changes in default rates are maintained.

[5] Projected Students who will Graduate = Reported Fall Enrollments x 6-year Graduation Rates

[6] Projected Students who will Default = Reported Fall Enrollments x Budget Lifetime Default Rates

Low Risk Program Exemption

LOW RISK PROGRAMS ARE DEFINED AS PROGRAMS IN WHICH TOTAL PROGRAM TUITION IS BELOW $20,000 (see calculation below)

	Some college or associate degree	Bachelor's degree and higher	Total
Number of US Workers, 25 years and over (in thousands)	25,177	33,080	58,257
% of Total	43%	57%	100%
BLS Income Data by Educational Level [1]			
			Weighted-Average
2009 Pre-Tax Weekly Wages:			
First Quartile	$ 513	$ 768	$ 658
Second Quartile	$ 726	$ 1,137	$ 959
2009 Pre-Tax Annual Wages [2]:			
First Quartile	$ 26,676	$ 39,936	$ 34,205
Second Quartile	$ 37,752	$ 59,124	$ 49,888
Calculation of Pre-Tax Annual Discretionary Income [3]			
2009 Pre-Tax Annual Wages:			
First Quartile	$ 26,676	$ 39,936	$ 34,205
Second Quartile	$ 37,752	$ 59,124	$ 49,888
Less 150% of Poverty Level Income [4]	$ 21,855	$ 21,855	$ 21,855
2009 Pre-Tax Annual Discretionary Income [3]:			
First Quartile	$ 4,821	$ 18,081	$ 12,350
Second Quartile	$ 15,897	$ 37,269	$ 28,033
Calculation of Discretionary Income Available for Debt Service at Various Thresholds [5]			
Debt Repayment Threshold as % of 2009 Discretionary Income	10%	10%	10%
2009 Pre-Tax Annual Discretionary Income Available for Debt Service:			
First Quartile	$ 482	$ 1,808	$ 1,235
Second Quartile	$ 1,590	$ 3,727	$ 2,803
Calculation of Maximum Allowable Student Debt to Qualify as Low Risk Programs			
2009 Pre-Tax Annual Discretionary Income Available for Debt Service:			
First Quartile	$ 482	$ 1,808	$ 1,235
Second Quartile	$ 1,590	$ 3,727	$ 2,803
2009 Pre-Tax Monthly Discretionary Income Available for Debt Service [6]:			
First Quartile	$ 40	$ 151	$ 103
Second Quartile	$ 132	$ 311	$ 234
Interest Rate	6.8%	6.8%	6.8%
Term of Loan (in years)	10	10	10
Number of Monthly Payments	120	120	120
Maximum Allowable Student Debt at Low Risk Programs [7]:			
First Quartile	$ 3,491	$ 13,093	$ 8,943
Second Quartile	$ 11,512	$ 26,988	$ 20,299

[1] Source: http://www.bls.gov/news.release/wkyeng.t08.htm
[2] Annual pre-tax income equals weekly pre-tax income x 52 weeks
[3] Discretionary income equals annual pre-tax income less 150% of poverty line income. Povertly level defined in footnote #4
[4] Data per 2009 - 2010 Poverty Guidelines for 48 Contiguous States. Source: http://aspe.hhs.gov/POVERTY/09poverty.shtml. Poverty level income is defined as the simple average of the poverty level income for families containing 1 person, 2 persons and 3 persons
[5] Discretionary income available for debt service equals discretionary income multiplied by debt repayment threshold
[6] Monthly discretionary income available for debt service equals annual income divided by 12 months
[7] Maximum allowable student debt at low risk programs equals the present value of a loan assuming a 6.8% interest rate, a 10 year amortization term with monthly repayment and calculated pre-tax monthly disrectionary income available for debt service (as defined in footnote #6)

We have calculated maximum debt loads supported under the IBR method for the 25th and 50th percentile incomes for US workers with at least some college experience

Using the 25th percentile income, the maximum allowable debt load would be $8,943. Using the 50th percentile income, the maximum allowable debt load would be $20,299

Pro Forma Compliance

- A program would achieve pro forma compliance **only** after its tuition is reduced to a level where debt-to-income levels for current and incoming students are compliant on a pro forma basis
- The level of tuition reduction required to achieve pro forma compliance would equal at least the difference between pro forma max debt level and the current debt level of the program's median graduate
- A hypothetical example is presented below:
  - XYZ University has a bachelor's program in Psychology whose total cost of attendance is $60,000. The median debt load (measured over a three year period) for a graduate is $48,000
  - The associated 25th percentile income BLS income for this program is $55,000, justifying only $4,400 of annual debt service or $31,862 of total debt, according to the 8% debt service-to-income cap
  - To achieve pro forma compliance, XYZ University would be required to reduce total program tuition by at least $16,138 so that pro forma median debt levels are compliant with the 8% debt service-to-income cap

Hypothetical Example of Pro Forma Compliance

		a Current	b Change	c Pro Forma
1	**Total Cost of Attendance for Median Graduate**			
	Tuition	$ 50,000	$ (16,138)	$ 33,862
	Estimated Living Expenses	$ 10,000	$ -	$ 10,000
	Total Cost of Attendance	$ 60,000	$ (16,138)	$ 43,862
2	**Funding Sources for Median Graduate**			
	Debt Funding (Federal Loans and Private Loans)	$ 48,000	$ (16,138)	$ 31,862
	Non-Debt Funding (Grants,etc.)	$ 12,000	$ -	$ 12,000
	Total Funding Sources	$ 60,000	$ (16,138)	$ 43,862
3	**Gainful Employment Compliance Calculation**			
	25th Percentile Income	$ 55,000		$ 55,000
	% Maximum Debt Service to Income Cap	8%		8%
	Maximum Annual Debt Service	$ 4,400		$ 4,400
	Maximum Program Debt [1]	$ 31,862		$ 31,862
	Actual Debt Incurrence	$ 48,000		$ 31,862
	Annual Debt Service	$ 6,629		$ 4,400
4	**Pro Forma Maximum Program Debt**			
	Maximum Program Debt [1]	$ 31,862		$ 31,862
	Current Debt Funding	$ 48,000		$ 31,862
	Tuition Reduction Required for Pro Forma Compliance	$ (16,138)		$ -

[1] assumes a 6.8% interest rate and 10-year repayment period

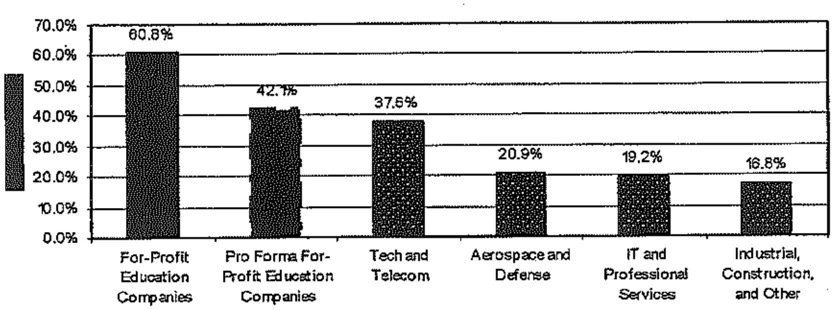
Pro Forma Compliance Impact on For-Profit Gross Margins

Hypothetical Impact to For-Profit Education Company Gross Margins		
	For-Profit School	
	Current	Pro Forma
Revenue	$ 50,000	$ 33,862
Cost of Goods	$ 19,592	$ 19,592
Gross Profit	$ 30,408	$ 14,270
% Gross Margin [1]	**60.8%**	**42.1%**

Using the hypothetical example on the previous page, gross margins would decline from 60.3% to 42.1%

[1] current % gross margin data is the median trailing twelve months gross margin for the publicly-traded for-profit education companies

Comparison of Current Reported and Pro Forma Calculated For-Profit Education Company Gross Margins with Gross Margins of Largest US Government Contractors by Industry [2]



For-Profit Education company gross margins would still exceed those earned by the 51 largest, publicly-traded US government contractors

[2] http://washingtontechnology.com/toplists/top-100-lists/2009.aspx. Blue bars reflect the median gross margins for the 51 largest publicly-traded government contractors according to their prime contracting revenue in government fiscal year 2008, sorted by industry. Data is collected on government expenditures related to information technology products and services, systems integration, telecommunications, professional services and engineering services