

Committee Meeting

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of

SENATE EDUCATION COMMITTEE

"Student Loan Default - Proprietary Schools"

LOCATION: Community Room
Camden County College
Camden, New Jersey

DATE: October 31, 1994
2:00 p.m.

MEMBER OF COMMITTEE PRESENT:

Senator John H. Ewing, Chairman

ALSO PRESENT:

Senator C. William Haines
District 8

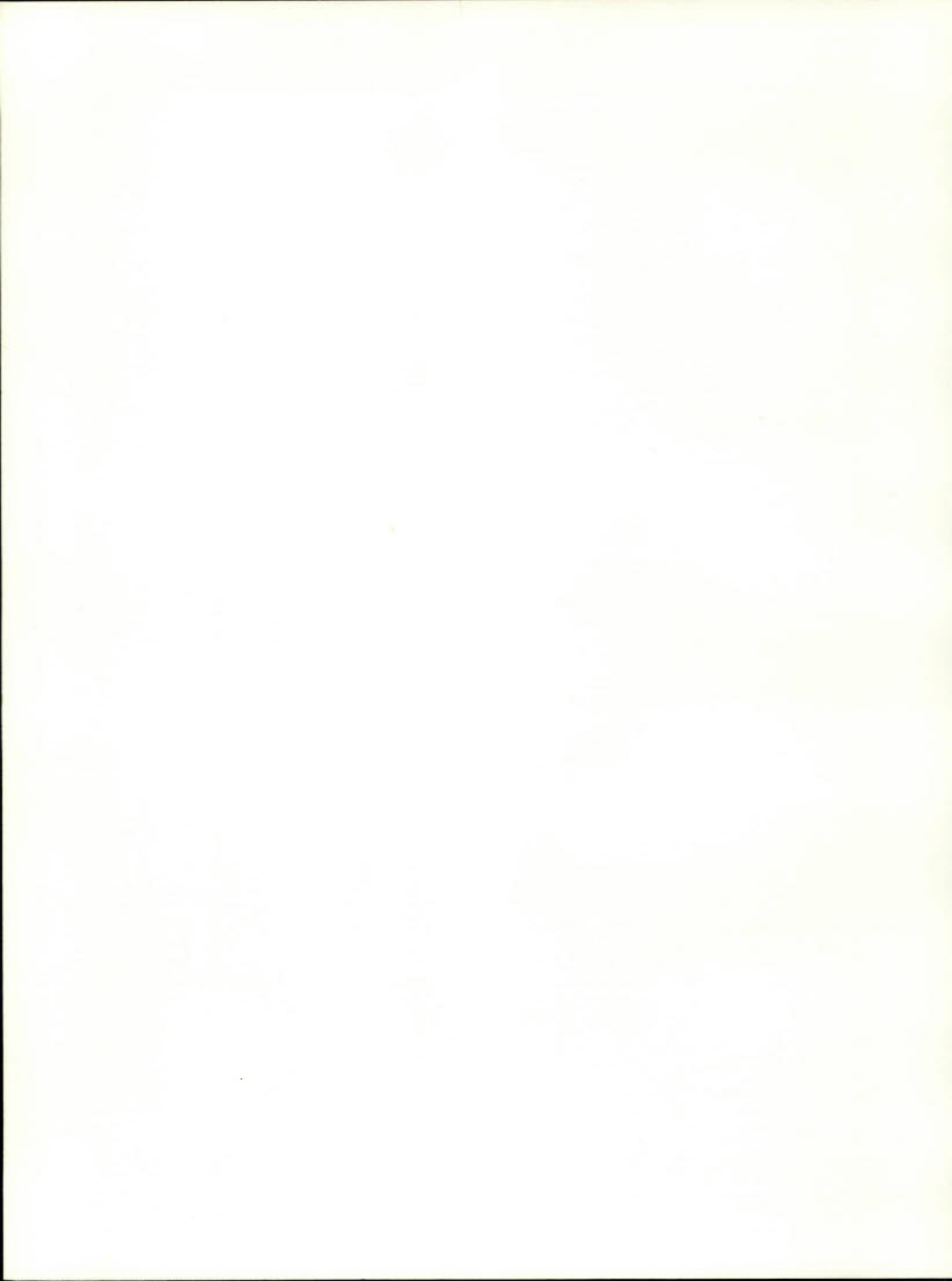
Senator John J. Matheussen
District 4

Dr. Vito Gagliardi
Adviser to Senate President
Donald T. DiFrancesco

Darby Cannon, III
Office of Legislative Services
Aide, Senate Education Committee



Hearing Recorded and Transcribed by
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JOHN H. EWING
Chairman

DELA PALAIA
Vice-Chairman

ROBERT J. MARTIN
JOHN A. LYNCH
GORDON A. MACINNES

New Jersey State Legislature

SENATE EDUCATION COMMITTEE
LEGISLATIVE OFFICE BUILDING, CN-068
TRENTON, NJ 08625-0068

(609) 984-6843

COMMITTEE NOTICE

TO: MEMBERS OF THE SENATE EDUCATION COMMITTEE
FROM: SENATOR JOHN H. EWING, CHAIRMAN
SUBJECT: COMMITTEE MEETING - October 31, 1994

The public may address comments and questions to Darby Cannon, III, Committee Aide, or make scheduling inquiries to Mary C. Lutz, secretary, at (609) 984-6843.

The Senate Education Committee will meet on **Monday, October 31, 1994** at 2:00 PM in the Community Room, Camden County College, 200 North Broadway, Camden, NJ. to receive testimony on the following subject:

"Student Loan Default - Proprietary Schools"

Assistive listening devices available upon 24 hours prior notice to the committee aide(s) listed above

Issued 10/21/94



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SENATOR JOHN H. EWING (Chairman): Good afternoon, ladies and gentlemen. I am Senator Ewing, Chairman of the Senate Education Committee. I wanted to have a hearing on this, because after reviewing the letters that came out on September 14 from Assemblyman Rocco, who is Chairman of the Assembly Education Committee--

Senator Matheussen, do you want to come up here?

SENATOR MATHEUSSEN: (speaking from audience) I am only going to stay for approximately a half hour, Mr. Chairman.

SENATOR EWING: Okay.

In reviewing the letters that Assemblyman Rocco had sent to Leo Klagholz, the Commissioner, and, in turn, the newspaper articles that have come about, and also on the legislation that I put in that we have released from Committee, we wanted to get further details and data, because there certainly seemed to be problems in the proprietary school area regarding the loan default.

The United States Senate Subcommittee on Investigations has issued a report and finding that Federal Guaranteed Student Loans, a well-intentioned Program, has deviated seriously from the intended purpose and stated goals. Plagued by fraud and abuse at many levels, and lacking meaningful oversight and management controls, the Program has become a failure in the billions of dollars of losses to our taxpayers.

The Federal subsidy for students has evolved into a cash bonanza for many businesses. Unfortunately, the State of New Jersey is the home for several proprietary trade schools whose student loan default rates are some of the highest in the nation. One of the reasons cited of several for this national epidemic is that schools will knowingly accept students who do not have the basic skills to complete the course work. In addition, students are admitted to training programs for which

job placement is limited or nonexistent. It is alleged that these schools are in the business of getting loans, not educating students.

Recently, it has been reported in the Courier-Post and The Philadelphia Inquirer that there is a high student loan default rate and a high rate of graduated students who are unable to find suitable jobs in the southwest region of the State.

On September 12, this Committee passed a bill, which I sponsored, which will consolidate administration and oversight in the Department of Education for proprietary schools. In light of the additional information this Committee has obtained, it may be a best interest that the original legislation be revisited to ensure that all aspects of this area of concern are addressed in a thorough and efficient manner.

The first person to speak today will be Dr. Thomas Henry, from the New Jersey Department of Education. He is the Director of Office of School-to-Work Initiatives.

T H O M A S A. H E N R Y, Ed.D.: Thank you, Mr. Chairman, and good afternoon to the members of the Committee.

SENATOR EWING: Excuse me. I should introduce, first of all, Senator Haines and Senator Matheussen, who have joined us today. On my right is Vito Gagliardi, who is the adviser to Senate President, Don DiFrancesco, and Darby Cannon, who is from the OLS staff for the Education Section there.

DR. HENRY: As the Chairman indicated, my name is Thomas Henry. I am the Director of the Office of School-to-Work Initiatives in the New Jersey Department of Education. Our Office currently coordinates the approval of 240 private proprietary vocational school sites and 7 correspondence schools in the State.

The private vocational school industry plays a major role in the occupational training and retraining of

approximately 27,000 New Jersey consumers who annually enroll in the schools. Since 1987, approximately 115 private vocational schools, under the approval authority of our Department, closed their doors, with little or no advance notice. Literally thousands of students were affected in the following ways:

- * The job training for which they were contracted was incomplete, and they did not have the ability to find meaningful employment.

- * They did not receive refunds for the tuitions they paid. If they used Federal guarantee student loan programs to finance their education -- and about 75 percent of the students did -- they were still responsible, as individuals, for the repayment of the loans.

- * Academic and financial records were not available to us or the students. This was a major disadvantage to those students affected who wished to pursue further education and training.

- * The present approval and oversight system has evolved over a 25-year period of time. It does not adequately address the consumer accountability and educational issues of an industry that receives in excess of \$95 million annually to provide entry level and supplemental occupational training to New Jersey residents.

- * Current law and code provide little penalty to schools that do not operate in the best interest of their students. The major enforcement tool is the ability to revoke the approval of such a school. However, that penalty means nothing to school owners who close their doors without notice, thereby inflicting educational and financial injury on all students.

- * State appropriations and fees currently available are not sufficient to provide the resources necessary to

effectively approve and oversee the operation of this industry so that student and consumer rights are adequately served and protected.

Currently, the private vocational school office is staffed by one professional and one secretary. When I took over this Office in 1991, we had seven staff members in that office. Unfortunately, the bad performance of some institutions has cast a broad, black shadow over all private vocational schools. High default rates are a measure of a system that requires revision. The Department believes that S-932, with technical amendments, will provide the necessary safeguards to protect the public and the students' interests.

The bill was developed and introduced as a result of recommendations made by the State Employment and Training Commission. The recommendations are part of a unified State plan for workforce preparation. The plan addressed the critical need to improve the way New Jersey educates and trains its workforce. The fundamental issue addressed in the legislation is the need for the identification and implementation of common standards of approval monitoring evaluation and education program accountability in the schools. Implementation of the standards will help to ensure the quality, stability, and integrity of the schools to the benefit of its students and New Jersey employers and taxpayers.

Enactment of the legislation will achieve a number of objectives:

- 1) Approval and oversight of similar private vocational schools will be consolidated under a single State agency, the Department of Education. Currently, at least five different agencies are involved.

- 2) The educational and financial interests of enrolled students will be protected. This is especially critical in those circumstances where a school ceases operation before students complete their education.

3) A trust fund will be in place to provide tuition refunds to students if the school closes and does not have adequate funds available to rebate them to students.

4) Adequate dedicated funds will be available to provide the resources to the Department to effectively approve schools and monitor their quality.

5) Program quality will be based on the attainment of measurable performance standards and outcomes, and civil penalties will be provided for those school owners who violate the law.

6) The bill will permit the collection and reporting of relevant consumer information, so that potential students may make reasonable decisions regarding enrollment in training programs offered by the schools.

We thank you for your interest in this critical issue. I personally receive letters, either from members of the Legislature or individuals, on a daily basis. Literally, their career plans are destroyed, in some cases. They have taken out their life savings, have taken Guaranteed Student Loans to go to a school, and the school closes on them. Then the government comes along and asks for its money back.

So, this is a significant problem. We offer our help in any way.

SENATOR EWING: Tom, a question I would like to ask is: What are the major issues that result in the student default rate?

DR. HENRY: Mr. Chairman, I think in your comments you addressed two: Inadequate counseling and assessment that lead to unrealistic goals for students, who do not have the adequate academic preparation to succeed. A student comes in off the street. "I want to be a brain surgeon." "Sure, here is our 10-week course." Similar things to that have happened.

Secondly, you also mentioned that there is training in fields which are oversupplied with workers. Consequently, if a

student finishes the program, he can't get a sufficient job with an adequate salary to repay his loan.

But I would add two other items: I think the institutions, in some cases-- I should preface my remarks this way: We are dealing with a situation where a few bad institutions are unfavorably characterizing a whole industry. That is not fair. Some institutions fail to adequately inform the students of their responsibilities to repay their loans. Given some of the disaster cases I can cite, if a student feels that the school has cheated them, they especially do not feel an obligation to repay their loans.

So I would say those four items are the major issues involved in default rates.

SENATOR EWING: Do they give a test? Do most of the schools give a test to the student when he comes in to see if he can even read and write?

DR. HENRY: The quality schools do, yes.

SENATOR EWING: Well, is that something we should do, though? We should require that--

DR. HENRY: I think there should be, in line with-- As you know, Mr. Chairman, the State is the finalist for the Federal One-Stop Career Center Program. As we implement the Program in this State, there should be routine and common assessments for all students, regardless of what institutions they are going to go into, and good vocational assessment instruments so that you really understand the career you think you are going into.

SENATOR EWING: Are there any criteria that the student has to have at least graduated from 9th, 10th, 11th, or 12th grade, or have a high school diploma?

DR. HENRY: In some cases, no, Mr. Chairman.

SENATOR EWING: How young can they take them?

DR. HENRY: Eighteen. See, there is a provision in the Higher Education Act, Title IV, which is the ability to benefit issue. That essentially says that if, in the

institution's view, the student can benefit from attending that institution and its program, then they are eligible for all the Title IV Programs, regardless of whether they have a high school diploma, a GED, or anything else.

SENATOR EWING: And that is a Federal--

DR. HENRY: That is a Federal requirement, but we could amend that at the State level. Certainly, the Legislature could add certain restrictions to that to clean that up a little.

SENATOR EWING: Do you think that would be feasible?

DR. HENRY: I think the whole issue of ability to benefit and accepting unprepared -- unacademically prepared students should be looked at very closely.

SENATOR EWING: Senator Haines?

SENATOR HAINES: I have a question: It seems to me from what you say -- and I want you to clarify this -- that the high loan default rate may, in fact, be an indication of a poorly run institution. It is certainly not the only factor--

DR. HENRY: It is certainly not the only factor.

SENATOR HAINES: --but it may be a very important factor in terms of rating an institution.

DR. HENRY: I think it is certainly one criterion, along with completion rates, which the Federal government is now emphasizing, that should be looked at, yes.

SENATOR HAINES: It seems to me if an institution is preparing a student in a field that is already overcrowded, or if an institution is taking in students who shouldn't be there, or if an institution is preparing a student only partially, and not fully preparing them for the job that is there, all of these things would lead to a high default rate.

DR. HENRY: If you can't find a job to repay your loan--

SENATOR HAINES: There you are.

DR. HENRY: There you are. On the issues you are mentioning, the State Employment and Training Commission is trying to track the effectiveness of institutions to see how many completers of programs there are, and how many get jobs in the area in which they were trained. The Federal government, under the Student Right-to-Know Law, has asked institutions to publish their completion rates, measured over a six-year period of time. You can ask--

SENATOR EWING: Excuse me. Year by year?

DR. HENRY: Year by year. So you can get data on how many students are in a class year, and then how many of those students finish over, in the case of two-year colleges, a three-year period of time; in the case of four-year colleges, it is a six-year period of time.

SENATOR EWING: Who knows where the students get that? I mean, how many of them actually know when they apply that they can ask for that?

DR. HENRY: They are supposed to be published.

SENATOR EWING: Where?

DR. HENRY: By the institution. Part of it is brochures.

SENATOR EWING: Brochures, I see.

DR. HENRY: It is certainly available in publications such as the "Chronicle of Higher Education."

SENATOR EWING: Oh, yes, but the average--

DR. HENRY: The average person does not have that available. The State Employment and Training Commission wants to publish a directory of all occupational programs that will include data on not only the completer success rate, but also the average starting wage of those individuals.

SENATOR EWING: Well, are they pursuing that? Are they doing that?

DR. HENRY: We are trying to pursue that. There are some questions: Can we access the wage information data over

in the Department of Labor? If you know the student's Social Security Number, then the State government has whether they are working or not and what their salary is.

SENATOR EWING: Yes, but do you think that is as important as getting a job? I mean, then you might have everybody just funneling the areas that are the highest paying.

DR. HENRY: Well, if someone takes a computer training course and then becomes a dish washer, they will show up as employed. The variant would be--

SENATOR EWING: Oh, I see.

DR. HENRY: --"Do you know what job title they are working in and what their salary is?" There should be a difference in salary between the two occupations.

SENATOR EWING: I hope so.

Now, what do we do about bilingual problems within the proprietary schools?

DR. HENRY: This is my personal opinion, and not that of the Department, Mr. Chairman. When I was a student, it was considered of ultimate value to know a second language. I don't understand what has happened in our country, that now you are looked down upon if you have the ability to speak another language. I remember a comment by former Governor Kean when he came back from China. He said they were talking, and his hosts were saying, "We view an educated person as a person who can speak at least three languages." He said, "Well, what do you call a person who can speak two?" "Well, they are students." He said, "What do you call a person who can speak one language?" "An American." (laughter)

If I were in business in a multilingual community, it would do me well to have on my workforce people who could speak more than one language. I just don't understand why we view this as a negative and not a positive and build upon it.

SENATOR EWING: That wasn't the point. I certainly feel that if people can learn two or three languages, it is so much better for them. But I'm saying, if someone comes into a

class and can only speak Greek, say, what do the schools do? Do they do anything, or do they just take his money?

DR. HENRY: I think if the school is going to accept that individual knowing his present capabilities, the school has some obligation to assist that individual in learning and speaking English.

SENATOR EWING: Do we know if they do, though? Do we monitor that?

DR. HENRY: Senator, we just have not had the staff in the last two years to go out and monitor, so I couldn't tell you.

SENATOR EWING: You have somebody else with you. There are two of you, my goodness. (laughter) But there is no control of that. I am wondering how many of these students who do drop out -- default -- just couldn't catch on because they didn't know enough of the English language.

DR. HENRY: I would say at least a quarter to a half of the letters I get from individuals, those individuals fall into that category.

SENATOR EWING: Well, do you think, then, that we ought to eventually set up something whereby they have to take an exam in English only.

DR. HENRY: Well, English only is a whole other controversial subject.

SENATOR EWING: I know. It might be, Tom, but, I mean, why take some poor student in who cannot absorb the English language, who sits in a class, having borrowed the money, and then realizes he just can't understand what is going on?

DR. HENRY: We have had an excellent working relationship with the Private School Industry Association in this State. Before a decision like that was made, I would hope that the Committee would hear from that Association and get their input into how significant a problem that is, and then what steps could be taken.

SENATOR EWING: I am just wondering: Do you think the figures are-- Did you say 25 percent at least are dropouts, because they cannot comprehend--

DR. HENRY: From the letters I-- The letters are barely readable. It is obvious that the individuals -- that English is not their native language.

SENATOR EWING: Well, they ought to write in their native language, and you should know four or five languages then.

DR. HENRY: Thank you. I need that like a hole in the head right now.

SENATOR HAINES: Mr. Chairman?

SENATOR EWING: Yes?

SENATOR HAINES: Most of my employees do not speak English. They speak Spanish, the majority. We have some Cambodians, some Vietnamese, and some Guatemalans, but most of them speak Spanish. But, you know, the ones who get the promotions and the highest salaries are the ones who speak English fluently, because they have to not only work with Spanish-speaking people, but they have to work with English-speaking people.

Certainly, I think, we are not in Miami, we are not in southern Texas. I would think that English has to be a very important part of their education, regardless of what they do.

DR. HENRY: I would agree with you.

SENATOR HAINES: It is even important if you are hiring someone just to drive a truck. I say, "just to drive a truck." Driving a truck is an important job, but you can't read the road signs very well if you can't read English.

DR. HENRY: Nor the driver's manifest or, you know--

SENATOR HAINES: That's right. I think that this should be a criterion, but, here again, I think you are pointing out that this is not a situation where your student loans are going to people who become doctors or, as you said,

brain surgeons, and then don't pay. These are people who can't pay, because they can't afford to. Is that a correct assumption?

DR. HENRY: I know full well that there are people with M.D.s, D.D.S.s, and other advanced degrees who have defaulted on their student loans.

SENATOR HAINES: We all know that.

DR. HENRY: Yes. I think the problem that we have right now is, there is a disproportionate number of students who have entered training at a low level, never completed that training, and, therefore, are not capable of paying off their student loans. That is a significant problem to us.

SENATOR HAINES: So whereas someone who goes to Harvard, Harvard Medical School at least, it isn't the schools's fault. In this case, it comes right back to the school as being, maybe, the major culprit in the situation.

DR. HENRY: Several years ago, there was an intense debate in this State about value-added education. One of the factors was that in value-added education, do you accept civic and personal responsibility for your actions? Clearly, under that perspective, taking a loan, saying at the time that you would repay it, and then renegeing on it, is, I would say, a negative indicator of civic responsibility.

SENATOR HAINES: But by the same token, running an institution in which your students cannot pay the loan back because they are not properly educated -- I guess that is the right word -- is even worse, because you multiply the factors.

DR. HENRY: Having served at a New Jersey higher education institution for 24 years before moving to the State, I think the institution has a responsibility to be truthful about its programs, the opportunities as a result of those programs, and only accept people into those programs who have the likelihood of success. If you become a revolving-door

institution, you do a great disservice not only to the students, but I think to the entire community, including the taxpayers.

SENATOR EWING: Senator Matheussen?

SENATOR MATHEUSSEN: I would like, if I may, to just move to a different area, not to discredit anything else that has been asked or your statements.

I am also concerned about what is happening right here in New Jersey. We are kind of speaking in a broad perspective right now. My concern is: Does the Department have some statistics that indicate what schools in New Jersey have, I guess, the worst record with regard to complaints from consumers? Is there some compilation you have that says that students are complaining more about School "X" than they are about School "Y"? Can we zero in on these schools that, in fact, seem to be putting forth, perhaps, a false misnomer that, "There are jobs out there, and we can train you for them," when, in fact, there are not?

DR. HENRY: If you look at the last page of our statement, there are some numbers which talk about complaints and investigation of complaints. We get approximately 75 phone calls a day. When we had a staff, we could adequately investigate those complaints. Now we really just have to take the most serious complaints.

But what you are asking is: Can we catalog which schools those are? Yes.

SENATOR MATHEUSSEN: You can?

DR. HENRY: Yes.

SENATOR MATHEUSSEN: Can you supply that for this Committee?

DR. HENRY: It would take me, probably, two weeks to reassign staff to work with the Private Voc School Unit to do that, yes.

SENATOR EWING: You have weekends.

DR. HENRY: My weekends are taken up with explaining School-to-Work to various groups.

SENATOR EWING: Right, Tom, I know it.

SENATOR MATHEUSSEN: I am an invited guest to this Committee. I apologize, because I have a conflict today and I cannot spend the entire hearing. But, through the Chairman, I would like -- if he so deems-- I think those statistics are extremely important to where we are headed with this Committee.

SENATOR EWING: Right.

SENATOR MATHEUSSEN: I have had complaints from constituents in my office regarding the completion rate, or the lack of quality programs they thought they were going to be attending at some school. I would like more information to find out whether or not there is a basis -- a repetitive basis, I guess.

The other thing, I guess, is: How important do you value-- Some schools apparently give some guaranties; if not guaranties in assistance, with regard to job placement. Can you tell us which schools actually go out and say, "Look, we will help you to find a job over the next six months, or twelve months in the career you have chosen," or do some schools actually go so far as to guarantying jobs? I know there are some paralegal schools, for instance, which actually guaranty a job in the field of being a paralegal, once completed, upon graduation within a period of time. Otherwise, you get a substantial sum of your money back from the program that you paid for.

DR. HENRY: I cannot think of a post-secondary institution that does not have some kind of a placement office. Some are better than others, though, obviously.

With regard to guaranties, the county vocational/technical schools are establishing, this year, for all of their programs, an employer guaranty which is directly related to industry standards for those occupational programs.

In those cases, if an employer hires an individual from those programs and is not satisfied that the individual has the level stipulated, the school will retrain that individual.

Some of the county colleges have initiated guaranty programs for some of their programs. Their actions are not as comprehensive as the county vocational schools. Other schools have different processes for doing that. There is one private vocational school in the State that gives you lifelong career placement, if you need it.

But I cannot give you an institution-by-institution analysis. I know the public institutions, particularly the county voc schools, have taken the lead in that area.

SENATOR MATHEUSSEN: Is that something, perhaps, that we should design into these programs for oversight over these schools, or at least -- let me back up a second -- mandate some form of a notice requirement, a more than adequate notice requirement to students coming in, saying: "Look, not only is this the school's area of expertise with regard to training, but in addition to that, here is the success rate we have in placing students in jobs for which they were trained at our school; here is the unsuccessful amount of students that happened; and here are some of the reasons why some are successful and why some are not?"

Is that something that students need to know before entering a school?

DR. HENRY: Certainly. What we have done in occupational education programs is, where they exist, require the program graduates to take an industry-endorsed licensing certification examination. Then I know which are the good programs. We require a 70 percent pass rate on those tests.

Let me use cosmetology as an example.

SENATOR MATHEUSSEN: That is probably better than brain surgery, right?

DR. HENRY: The Board of Cosmetology approached me three years ago with the fact that not many students graduating from our programs were sitting for the State licensing exam. So we instituted a process, jointly, of an early exam in June, and we had the cosmetology programs in our schools bus their students to that test. I then had concrete information. We have kept this up now for three years, so I have concrete information on what the success on the State cosmetology license exam is for every public school offering cosmetology in the State.

Now, there are some that have not had good records. I will be honest, they are atrocious. There are seven schools that hadn't had anyone pass. So they got a letter from me saying, "You have a year to improve, or we will revoke your authority to offer that program."

SENATOR MATHEUSSEN: That makes sense.

DR. HENRY: Again, it gets back to this accountability and completer issue. You can't ask a person to invest six months to two years of their lives with the hope of improving themselves, and then know that your program is not good enough to help them to do that. I think that is the ultimate education fraud that we can perpetuate on students.

SENATOR MATHEUSSEN: The other area, I imagine, too, would be dropout rates. Dropout rates would be a key indicator, because obviously a school could, I guess, play a little game, perpetuate a fraud, because they could accept students, get their money, so to speak, and then say, "You just don't have what it takes. Sorry."

DR. HENRY: That's true.

SENATOR MATHEUSSEN: So they could play the game of not having to place them, not having to serve the energy to place a student, but yet up front take their money, get them through a number of courses -- or a number of weeks of study, and then say, "You're out of here."

DR. HENRY: Wait until the refund period is up, and then one week after the expiration of the refund period, drop them out, or find a reason to drop them out. Some of the complaints we have had indicate, or at least allege, that that has happened.

SENATOR MATHEUSSEN: Thank you.

SENATOR EWING: Tom, on the seven cosmetology programs, those students took the licensing exam, because they are required to now?

DR. HENRY: They all took it, Mr. Chairman. We are requiring that.

SENATOR EWING: Do you have some set things where if nobody passes it in one year, you are going to close them down, or do you give them more--

DR. HENRY: Under the Federal law, I can't close them down in one year. I have to give them two years to improve. But we work with the--

SENATOR EWING: Another year, or two years to improve.

DR. HENRY: They have one year to improve, and then we step in and help them. But the obligation is theirs, and if they do not improve after the second year, then we can shut them down -- shut the programs down.

SENATOR EWING: There is a gentleman in the audience who evidently does not agree. Excuse me, sir, could you--

F R E D E R I C K W I L S O N: (speaking from audience) My name is Frederick Wilson, from the Gordon Phillips Beauty Schools.

I believe the reference to the seven schools was seven public institutions; not proprietary schools, seven public institutions, public schools, public vocational schools, not proprietary schools.

DR. HENRY: I'm sorry, let me clarify. I said the schools under my jurisdiction, which are the public cosmetology schools. The private cosmetology schools fall under the jurisdiction of the Board of Cosmetology and Hair Style.

The seven schools were public schools. They were not county vocational schools. They were seven comprehensive high schools in the State. They will be receiving from me, very shortly, a letter saying: "You have had your chance. Close it down."

SENATOR EWING: Well, now, the proprietary cosmetology schools-- Do you have control over those, too?

DR. HENRY: No, that comes under the Board of Cosmetology.

SENATOR EWING: How do we know what they're doing?

DR. HENRY: You would have to ask the Board of Cosmetology, because I am not privy to those results.

SENATOR EWING: Well, we don't know whether there are scams going on in them, too.

How many other groups-- I mean, how many other types of vocational -- like cosmetology, etc., are run by their own particular board and yet are getting student loans and everything?

DR. HENRY: I think the number is somewhere between 20 and 40, Senator.

SENATOR EWING: Well, could you give us a list of those, what areas they cover?

DR. HENRY: Real estate-- There is a whole-- I will get a list for you.

SENATOR EWING: Okay.

DR. HENRY: But they do not fall under our jurisdiction in oversight.

SENATOR EWING: So you can't do anything about them then?

DR. HENRY: That is why your legislation, you know, requires coordination among the State departments, and consolidation.

SENATOR EWING: What do you do about a vocational school with a high default rate? I am talking about a public voc-tech -- county voc-tech--

DR. HENRY: I do not have the authority to do much, except give them advice on what they should do next.

SENATOR EWING: Well, do we have a rating on the various county vocational-technical schools?

DR. HENRY: I have a list of every post-secondary institution in the State, and their default rate is published by the Federal government. I think I have provided the Committee with a copy of it.

SENATOR EWING: Are the majority of them on the low side of the default rate, would you say, if you recall?

DR. HENRY: Low as defined by the Federal government, yes.

SENATOR MATHEUSSEN: That's a relative term, isn't it?

SENATOR EWING: What do they call our deficit, the national debt? Is that low?

SENATOR MATHEUSSEN: Not bad, not bad. It's not bad. It's getting better.

SENATOR EWING: Yes, they did cut it down a bit.

SENATOR MATHEUSSEN: That's right. In terms of trillions of dollars, it's not bad.

SENATOR HAINES: Not the deficit, the amount we are going to be--

DR. HENRY: I am not a financial aid expert.

SENATOR EWING: No.

DR. HENRY: But the whole issue of, "Is the student entitled to a Guaranteed Student Loan?" is an issue, really, between the lending agency and the individual. The institution involved only certifies that, "The person is a student at our institution." A lot of this is problems with the Federal legislation. So if a student comes in and is accepted in your institution, how they get the money to pay you-- You can help them, or they can go out and do it themselves. That is a problem that I think Congress should look at one of these days.

SENATOR HAINES: Except for the fact that I think you have brought up, that our role may be in ensuring that the institutions we have in the State are institutions that serve the students well, screen the students, and prepare them for a job, or for life, so that they can pay the student loan back. I think that is maybe where we fail in the whole situation.

I looked at this list here, and some of these schools this past year have as much as 50 percent of their students delinquent. If you go back over the other two years, they are 35 percent or 40 percent. That is a pretty high level, it seems to me. There must be something that that school is doing differently from another school -- from the average school there that is running, probably, less than that. I think that is the thing that we can help in, even though this is a Federal program, and we should help, because we are very much concerned about taxpayer dollars, but we are also concerned about the institution that really is not serving the student as well as it should.

DR. HENRY: I agree. I particularly commend you for looking at three-year averages, because you can have a spike in any given year.

SENATOR HAINES: No question. That is why I am saying--

DR. HENRY: That is why the data is presented by the Feds for three years. You get a better picture.

SENATOR HAINES: That is why I'm saying if they average a 40 percent rate, there has to be something wrong with the average rate in here of probably 20 percent.

SENATOR EWING: I'm was hoping, Tom, you were going to say that my county, Somerset -- just looking at the list -- only had a 4 percent default rate.

SENATOR HAINES: Princeton University is better than that, Jack.

SENATOR EWING: Well, they are in another county.

DR. HENRY: Well, remember, your colleague indicated that that is one factor to look at. Look at some of the other factors.

SENATOR HAINES: Well, there is no question in my mind that the institution that takes in the very brightest of bright students, who are partially qualified for the job anyway, is going to have a lower default rate than the institution that takes in an average student. Still, I think we ought to look at the welfare of the students all the way through this Program.

DR. HENRY: If you are looking at Princeton University, look at the institution right above that has a question of ethics in default rates.

Thank you very much.

SENATOR EWING: Thank you, Tom, very much.

Donna Smith, from Cherry Hill.

D O N N A O. S M I T H: Good afternoon. My name is Donna Smith. I am an English teacher at Trenton Central High School.

Back in 1986, when my youngest child started school, I decided to go back to work part time. Kane Business Institute was advertising for a part-time teacher, so I applied, interviewed, and was accepted. I started working there in February of '86. I worked there part time for a year and a half, five days a week, for about three to four hours a day. This was not my first experience teaching adults. I had taught in the Adult Evening Program at Cherry Hill East and at Sterling High School, and I thoroughly enjoyed teaching adults, because when they were paying for knowledge, they were very eager to learn and they wanted their money's worth.

I enjoyed teaching at Kane. The Kanes were very accommodating to the hours I needed, they paid fair wages, and the staff was -- the other teachers were very caring professionals. Most of them did not have college degrees, but they had some sort of certification from the State that allowed them to teach at a private school.

The problem I encountered at Kane was the very low level of many of my students. I taught typing and business English there. I used to communicate a lot with the computer teacher to discuss the students, because I wondered how they learned -- how the students would learn computer programs, when they were having difficulty learning keyboarding and basic English skills. It was a little frustrating for me, but I knew that with a lot of work on both our parts, that some of them would be able to succeed. But, in my opinion, I also knew that some of them were absolutely incapable of meeting the graduation requirements for the school. I felt they were wasting their money and, in my opinion, I believed they never should have been enrolled in the school to begin with.

So at a certain point, then, I started asking how the students were recruited into the Business School. I found out that Kane advertised on TV some, in newspapers, and they also went down to Welfare offices and to Unemployment. My next question, logically, was, were there any admission tests given to these students, so they could weed out people who might be doomed for failures. In other words, I wanted to know if there were any minimum requirements for the students who were entering this school. I found out that there was a written test that all applicants were given.

The admissions rep gave me a copy of the test. I was shocked at how simple it was. In fact, I took it home, gave it to my two children, who were seven and ten at the time, and they both passed it, with honors. This bothered me, but it wasn't earth-shattering because I recognized that this was a business, not just a business school, but a way for the owners to put bread on their table. So I accepted it and did my job.

The beginning of the end for me at Kane came when a school administrator asked me one morning to sign a typing certificate for a student, which said that he could type -- I forget if it was 35 or 40 words per minute, whatever the

graduation requirements were for the course he was taking. I said I couldn't sign it. I said, you know, "I worked with this student for six months, ten months" -- and again, I cannot remember which course he was in -- but I knew he was incapable of doing that. He had only been typing about half of that the entire time, plus he was making numerous errors. This went back and forth, and the bottom line was, I ended up refusing to sign the certificate for his meeting the graduation requirements.

Shortly thereafter, I was called in by the administrator and accused of being a racist. Then I was harassed for a few days, and finally, I was fired for insubordination in July of '87. Then I went on to public education, pretty much disassociated myself from Kane, and removed them from my resume, as an embarrassment, I felt.

That's about all.

SENATOR EWING: What was the insubordination?

MS. SMITH: Refusing to sign the certificate saying that a student met the graduation requirements. I asked to give him another test, but I was not allowed to. I was asked if I was calling that person a "liar," because he said he could type that many words a minute, and I, in my heart, knew that he could not. I just couldn't sign it. I told them to sign it, but I wouldn't.

SENATOR EWING: Did they?

MS. SMITH: They must have. I don't know, but I didn't.

SENATOR EWING: Where is Kane located?

MS. SMITH: I taught at the campus on Haddonfield Road in Cherry Hill.

SENATOR EWING: Oh, are there several of them around?

MS. SMITH: I don't know if there still is, but there was another one that opened up in downtown Camden.

SENATOR EWING: How big was it, the one in Cherry Hill -- on Haddonfield Road, I mean?

MS. SMITH: It wasn't huge. Off the top of my head -- I am trying to recall -- there were maybe 50 or 60 students there at the time. It was not huge. There were, like, three or four classrooms, and about four teachers, as I am trying to recall.

SENATOR EWING: That school was just geared toward--

MS. SMITH: Computer training.

SENATOR EWING: Computer training.

MS. SMITH: Secretaries and people who wanted basic computer skills. I taught the business English. Someone taught business math and accounting. I taught typing. We had a computer teacher who taught different programs.

SENATOR EWING: The written test they give-- You said your seven and ten year olds passed it.

MS. SMITH: When I looked at it, I laughed. Then I thought, "I am going to take this home and see what happens." It was just very, very simple, simple math.

SENATOR EWING: Did you find many students in the group you were teaching who just really could not comprehend the English for that particular course?

MS. SMITH: The English grammar part, yes, but that is something they could have learned in time, you know. It would just take a lot of effort on their part.

SENATOR EWING: With additional help, or going to evening classes?

MS. SMITH: Right. There were a number of students who did not have high school diplomas yet, so they had not gotten the English in high school. Unless you got it somewhere else, you were going to have trouble.

SENATOR EWING: The students who came to you-- Were many of them not high school graduates?

MS. SMITH: I couldn't say "many." I don't know how many. I know there was-- I think Kane offered a GED course there, or helped them to get into one. But there were some who did not have a high school diploma, and GED help was available.

SENATOR EWING: Would that be at an extra cost, though?

MS. SMITH: I don't know; I don't know.

SENATOR EWING: The students you had in your class-- You had them for a complete course, which was what, six weeks, twelve weeks?

MS. SMITH: They had different lengths of courses, depending upon the cost. I was trying to find a little booklet just so I could recall if it was six months, nine months, or what, but I couldn't. There were different lengths. For each one-- Say, in typing, you had to meet a certain requirement, typing words per minute and number of errors. English-- Most people would end up passing my English class.

SENATOR EWING: What about the placement of those students when they left you? Do you know anything about that?

MS. SMITH: No, I really don't.

SENATOR EWING: Whether they got placed or anything?

MS. SMITH: I don't know.

SENATOR HAINES: I just wonder, what percentage of the school was devoted to remedial education to bring them up to high school level? Is there a factor there that you are aware of, or not?

MS. SMITH: I just know it was mentioned that if you did not have a high school diploma, they would help you with the GED requirements. I really couldn't tell you the percentage.

SENATOR HAINES: You don't know percentage, or how much time was spent on that?

MS. SMITH: No, I was not involved in it. I don't know if it was taught there, or if they just got them enrolled elsewhere.

SENATOR HAINES: That's all I have.

MS. SMITH: Okay.

SENATOR EWING: Thank you very much, Donna.

Don E. Schreiber.

D O N A L D E. S C H R E I B E R: Thank you, Mr. Chairman.

My name is Don Schreiber. I am Superintendent of the Cumberland County Technical Education Center, which is the county voc-tech in Cumberland County.

I came to speak to you today to tell you, just from the deep South's one point of view with Pell grants, our experience there, and hopefully some of that can be taken into consideration. We no longer participate in the Pell Grant Program in Cumberland County at our school, and that is unfortunate because, as you know, we are a very economically depressed area, and many people are in need of funds to continue their education. However, we stopped our participation in 1991-'92 as a result of several factors, which I would like to just outline very briefly.

One is that the administration of the Program is very, very difficult in terms of the requirements for the Federal government, and it becomes a matter of-- It would have cost us additional funds to hire additional people to continue to do that.

We actually had some fear of default rates. For example, one year when we had two students taking advantage of the Program in our school, our default was 50 percent. One did not pay back, so it looked terrible. Yet in a year when we had 25 students taking advantage of the Pell Grant Program, our default rate was 8 percent. But we were very concerned over the default rates of the students.

The accreditation that was required in order to maintain our status of being able to administer the Pell Grant Program depended upon Middle State's evaluation, which for a county vocational school -- we were not convinced -- was an accurate assessment of our school's quality.

When Dr. Henry spoke of the placement rates of the students, our performance on occupational licensing tests and on other validated, standardized tests -- our students

performed well. Yet, the expense of going through Middle State's evaluation would have been costly and prohibitive for the few students who were taking advantage of the Pell Program. Instead, we turned to a local source of funding, through county government, to be able to reduce the price of our programs, so that more and more students could afford them. As budgets get tighter, we don't know that we will be able to continue this. My hope, as a county vocational school superintendent, is that the legislation being considered and revisited here would take some of these factors into consideration, so that we could participate, on a cost-effective basis, and make this service available to students.

Thank you.

SENATOR EWING: Are you talking about the legislation we mentioned? Is that it?

MR. SCHREIBER: Yes. You indicated you were revisiting that.

SENATOR EWING: Oh, yes, definitely; no question about it.

But on the Pell grant, aren't there other students in your area who are getting a Pell grant to go to college and stuff?

MR. SCHREIBER: That is correct.

SENATOR EWING: It is too expensive for you to run the Pell Program for those students who need it?

MR. SCHREIBER: In our school, with a limited budget and the size of the staff we have, it would have required, in my estimation, another staff member to continue to administer the Pell Grant Program to its full extent.

SENATOR EWING: Yes, but you have a college down there, don't you?

MR. SCHREIBER: That is correct.

SENATOR EWING: Well, have you looked at the fact of maybe working with them to see if you could--

MR. SCHREIBER: Yes, we have considered that. As a matter of fact, I have spoken about that with the county college president there. Hopefully, we can do that.

SENATOR EWING: Oh, yes, because those Pell grants are vital to many, many people.

When will you know if they are going to be available? I mean, you gave up this Program in '91?

MR. SCHREIBER: We are in a situation now where-- In '91, we made a major change in funding, where tuition was a significant expense at that point for students.

SENATOR EWING: Right.

MR. SCHREIBER: We were able to secure additional county funding and use surplus funds, and we reduced our tuition to zero. So we have made--

SENATOR EWING: To zero? How wonderful.

MR. SCHREIBER: So we have made our programs accessible to many, many--

SENATOR EWING: So you really don't need--

MR. SCHREIBER: But we don't know how long we can continue doing that.

SENATOR EWING: That's true; that's right.

MR. SCHREIBER: Each year it becomes more and more difficult to find sources of revenue and to be able to keep that the way it is.

SENATOR EWING: Well, do you find the applicants going up down there in the vocational school?

MR. SCHREIBER: The number of applicants?

SENATOR EWING: Yes.

MR. SCHREIBER: Yes, absolutely, for the adult population. As the secondary enrollment declines, our post-secondary enrollment is increasing.

SENATOR EWING: Well, is that for retraining or for people just trying to pick up a business--

MR. SCHREIBER: I think it is a combination of both.

SENATOR EWING: Oh, okay. But you mentioned that it is a vocational and technical school. Are they two separate operations?

MR. SCHREIBER: The vocational school is a separate entity from the college. Is that your question?

SENATOR EWING: From the college, yes, but in Somerset we call it the Somerset County Vocational-Technical.

MR. SCHREIBER: Voc-Tech. That was our name prior to last year, when we renamed the building the Technical Education Center.

SENATOR EWING: Oh, okay, but it is still a vocational--

MR. SCHREIBER: It is still a voc-tech -- bottom line.

SENATOR EWING: Oh, good, because it sounds better. I agree with you. The vocational part ought to be taken out, I think, all over.

MR. SCHREIBER: That is a wonderful suggestion.

SENATOR EWING: Because of the stigma it puts in some people's minds.

MR. SCHREIBER: As I said, as the secondary enrollment decreases, people realize its value on a post-secondary level. Unfortunately, they could often take advantage of it at a much younger age, and do not get the opportunity.

SENATOR EWING: In the public sector, such as your school, from what you know of the private sector -- proprietary schools -- do you think there is more oversight on your part than on theirs, or the same amount?

MR. SCHREIBER: I can't make a comment on how much oversight there is on the proprietary schools. I know how much there appears to be for us, and it seems to be significant, in spite of Tom's small staff.

SENATOR EWING: He does get around.

MR. SCHREIBER: Yes, he does. He does a very effective job.

SENATOR EWING: How many do you have enrolled down there?

MR. SCHREIBER: On our adult population, we have 100 -- I believe it is 78 students in our program this year. It is about double the size it was in '91-'92 when we went to this method of paying, if you will, for the program versus the Pell grants.

SENATOR EWING: That's wonderful that you do it for nothing.

MR. SCHREIBER: Somebody pays.

SENATOR EWING: Well, yes, the taxpayers as a whole, but it helps the community and the individual involved, too.

MR. SCHREIBER: It has been a great experience to see the reasons why people come back for this type of education and the age ranges of the people who come back. It is rewarding to see people as young as 18 coming back for their initial skill training, and as mature as 65 coming back for their own interests.

SENATOR EWING: But do you find many students in the older brackets? Are they just doing it for something to do?

MR. SCHREIBER: Not many; there are a few, but not many. Most of them are doing it for retraining purposes. Their former occupations are no longer in existence, have been phased out by modernization, that type of thing.

SENATOR EWING: Right, okay, for legitimate reasons, rather than just to have something to do because they don't want to sit home all day and watch the "Soaps."

MR. SCHREIBER: That is correct.

SENATOR HAINES: Mr. Chairman, I have a very important question.

SENATOR EWING: Are you looking for some help?

SENATOR HAINES: Jack is very thrifty. Would you take him? He's over 65.

MR. SCHREIBER: Only if he passes the admission test.

SENATOR HAINES: Most Senators can't do that, I'm sure. Are you part of Cumberland County Community College?

MR. SCHREIBER: No, we are not.

SENATOR HAINES: Okay, you're separate, a separate campus.

MR. SCHREIBER: Correct.

SENATOR HAINES: How much of your efforts are on remedial education?

MR. SCHREIBER: On the post-secondary--

SENATOR HAINES: On a percentage basis?

MR. SCHREIBER: On the post-secondary level, none.

SENATOR HAINES: None, okay.

MR. SCHREIBER: We are strictly occupational education for any number -- 18 different career fields. If students have difficulties with basic skills, we refer them to either the county college to take part in their programs, or to the Vineland Adult School, which has an extensive GED and Adult Basic Education Program.

SENATOR HAINES: Could you just kind of give me an idea of what your spectrum of courses is and what job applications? I don't want the whole thing, but what do the majority of your students do after they get out?

MR. SCHREIBER: Most of the adult students are pursuing health careers and nursing. Our other major programs for adults are in the aviation maintenance industry.

SENATOR HAINES: Great.

SENATOR EWING: Oh, that's right, because some--

SENATOR HAINES: In that regard, do you get any help from the industries involved -- financially?

MR. SCHREIBER: Not direct dollar amounts. We do get assistance with our advisory committees and technical assistance.

SENATOR HAINES: Technical assistance, but not financial?

MR. SCHREIBER: None.

SENATOR HAINES: That's fine. That's wonderful, isn't it, Jack?

SENATOR EWING: It sure is.

SENATOR HAINES: In this educational field.

SENATOR EWING: And also for the Freeholders to realize the importance of being able to pick up--

MR. SCHREIBER: We are pleased with the support from the Freeholder Board.

SENATOR EWING: The students coming in, regardless of age, do you give them a test?

MR. SCHREIBER: When demand exceeds the available seats, yes. In licensed practical nursing, we have 44 slots available, and we usually have 350 applicants. In some other areas that are not in demand, though, it is open enrollment. We counsel the students as to what the program requires, and let them make their own decisions as to their fitness for it.

SENATOR EWING: Well, do you have plans, say, to expand the LPN?

MR. SCHREIBER: Not at this point. As a matter of fact, we are cutting back on the LPN program because, in spite of the demand from potential students, the job market is very low. As a matter of fact, this year we have reduced our enrollment capacity from 55 to 44, which disappoints some people who wanted to get into the program, but it does more adequately reflect the job market in the tri-county area.

SENATOR EWING: And that is explained to them carefully, I mean, fully, that we are really trying to do you a favor, so--

MR. SCHREIBER: Yes, it is.

Thank you very much.

SENATOR EWING: Thank you very much. It was very interesting.

Colleen Russo.

C O L L E E N T. R U S S O: Good afternoon, gentlemen. My name is Colleen Russo. I am here today representing Kane Business Institute.

My history in higher education, specifically in financial aid, goes back about 10 years. The first six and a half years I served as the Financial Aid Director of Kane Business Institute, which also happens to be owned by my family.

When I left Kane after six and a half years, I became an Institutional Review Specialist with the United States Department of Education; that is, I performed program reviews of Title IV administration at institutions in numerous states. I worked for both Region II and Region III. Region II encompasses this State. I perform program reviews at numerous different types of institutions, whether they be proprietary or traditional, county voc-techs, etc.

When I left the Department of Education, I left to become a Financial Aid Consultant. Currently, I serve as a Management Advisory Consultant for a local CPA firm which specializes in services to proprietary schools in this State, as well as in three others.

Basically, what I would like to share with you today is the fact that default rates are not an indicator of educational quality. Default rates are a highly technical type of issue. There is a very sophisticated formula that determines the default rate of an institution, and there are numerous issues that impact an institution's default rate.

At some point earlier today, it was mentioned that if an institution consistently has a particular default rate, there must be a reason, and I would agree with that statement. Many, many times the reason is the socioeconomic disadvantaged student that an institution is serving.

In revisiting your legislation and looking at potential issues, I would put to you that one of the things that needs to be examined in the State of New Jersey is, what

are we going to do with the segment of society that simply does not choose a college education, but needs to be provided with some type of skill in order to earn a living and in order to advance their life?

In closing down proprietary schools, which has, more often than not, been the focus of the U.S. Department of Education's efforts recently, there has been no attention paid to the issue of who will do the educating. There also has been no attention paid to the issue of who will handle these students when an institution inadvertently closes. Therefore, I would state that I support the legislation in terms of creating a tuition recovery fund. Many other states have it. It is unfortunate that the student is the one who loses out, but very honestly, having been a Department of Education employee -- a U.S. Department of Education employee -- what they are concerned with is Federal funds. They are not concerned with the welfare of the student. So I would certainly support that portion of your legislation.

Furthermore, I would support the issue of consolidating the oversight of different entities. One of the biggest frustrations I had as a Program reviewer was that the Federal regulations, those that oversee the Student Loan Program, are very much dependent upon work that is not -- or not done, in some instances -- by state licensing authorities and by accrediting commissions. There were often times when we knew that there was a problem and we tried to solve that problem and could not, because of a lack of support in terms of weak state regulations or weak standards from accrediting commissions.

In bringing up states and accrediting commissions, I would note that one of the reasons why we are today dealing with issues of fraud and abuse in the Title IV programs, is because for so many years we went with a lack of oversight on the part of anyone. Okay? There was no state funding provided

for monitoring visits. For a little while we were doing well, but now we are back down to our one token employee in that office -- again, the vocational ed office I am speaking of. There was no self-policing in terms of accrediting commissions. There are, you know, numerous stories that can be told about the accrediting commissions not truly doing their job of oversight and truly seeing if there was educational quality.

Up until 1989, the U.S. Department of Education had no employees. The office that I worked in, in New York City, had three employees with no travel budget. It is a little difficult to do program reviews that way.

The institutions that remain eligible and continue to participate in the Title IV programs, I feel, would generally agree that the oversight is a necessary evil; that if the policing was there many years ago, we would not have had the abuses that were there that cast a shadow upon the names of all of our institutions.

With those thoughts in mind, I would be happy to answer any questions anyone might have.

SENATOR EWING: Well, the problem in all of life is, it is the one bad apple that spoils the barrel. You know, there are bad politicians, so everyone looks at politicians as being bad. So it is one or two bad schools that put a cast over all of them, unfortunately.

One question I want to ask you: If you are with the Federal government and you saw problems in schools, you said because of state regulations-- What effort did you make to work with the legislators in that particular state?

MS. RUSSO: On the level that I serve, sir -- I was a GS-12 Institutional Review Specialist -- I had no authority to deal directly with state legislators, or Federal legislators, for that matter. We worked very closely-- As a matter of fact, I had a commendation in my performance appraisal for

developing strong relationships with entities within states and accrediting commissions to further, you know, the efforts of all of us, in general. So I did what I could in terms of working with employees, but I certainly did not have the authority to work with legislators, to encourage new legislation, or anything like that.

SENATOR EWING: They wouldn't let you do it?

MS. RUSSO: No. There are Federal regulations that surround even participating in political types of events and so forth, and they are very heavy duty. So it was not an issue that I got very much involved in.

SENATOR EWING: Earlier, Donna Smith was talking about the certification or degree that was passed on. Whether it was or wasn't, I don't know, and she doesn't know. Why would that take place?

MS. RUSSO: The only comment I have in response to Ms. Smith, who was an employee during my tenure at Kane Business Institute, is that upon her leaving the institution, she composed a letter where she made similar, as well as worse accusations against the Kane Business Institute. That letter was submitted to the office I worked for at the United States Department of Education, the Office of Student Financial Assistance in Region II, in New York City. That letter is contained in that file, along with correspondence from the Branch Chief submitting that letter to the State of New Jersey Department of Education, Division of Vocational Education. In other words, there were issues brought out in that letter that the Branch Chief did not feel fell under his oversight; that is, they were not Title IV type issues, they were more issues of State regulations. Therefore, he passed that letter on to the appropriate individuals, the appropriate oversight entity, Vocational Ed in the State of New Jersey. If I understand correctly, it is the office that falls underneath the

jurisdiction of Dr. Henry. At this time, I believe the seat is occupied by Bill Smith. Back in those years, I am not sure exactly who would have been responsible.

Under State of New Jersey regulations, Voc Ed is required, upon receiving a complaint -- or was at that time -- to inform the institution of receipt of the complaint and to seek a response. That process was never exercised by the Division of Vocational Education. So it is my personal opinion that, based on the relationship that the institution had always had with the State, based on the file, which documents things such as educational credentials and policies and procedures of an institution, the State of New Jersey was very comfortable with the issues that Donna brought out, comfortable that those issues were simply untrue, and that we always have to deal with things like a disgruntled employee having been fired and deciding to take something out on someone. That is really the only comment I have on Ms. Smith.

SENATOR EWING: Well, I don't think you or I could answer that question. I don't think you can say what you just said without--

MS. RUSSO: Well, certainly what we can do is--

SENATOR EWING: Just a minute, excuse me. I'm talking. --without any veracity as to what the complaint -- you know, actually how it came about. I would like to see who got it in the Department and get their reasoning. Someone could have taken and dropped it in the wastepaper basket. You know, Trenton has its foggy bottom as well. So there may have been some very slipshod work done there.

MS. RUSSO: Well, certainly what the Committee could do--

SENATOR EWING: There is a hell of a lot that goes on in education in New Jersey which stinks, and yet it goes on and on and on. That is why we want to try to get to the root of some of it. You see the problems we have in Jersey City. Look

at Newark. Those people should be in jail, and yet they are not in jail -- yet. Hopefully, they will be someday. But it's criminal. So I don't think you can say that because nothing was done that there was nothing to the report Donna Smith gave; therefore, it must be all right, because nothing further happened.

MS. RUSSO: Well, as I stated, that is my personal opinion of what happened. Certainly what the Committee can do is request a copy of that letter and ask for Voc Ed's response to how they handled it. I would like to see that myself.

SENATOR EWING: What year was that, do you remember?

MS. RUSSO: Ms. Smith said it was 1987 that she left.

SENATOR EWING: It was 19 -- what?

MS. RUSSO: It was 1987 that she left. I don't remember what the date was of that letter.

SENATOR EWING: What is the default rate on the students you have in your school?

MS. RUSSO: I don't actually work for Kane Business Institute. I am representing them today. As you have in front of you, it is 64 percent.

SENATOR EWING: Sixty-four percent. Why is that so high?

MS. RUSSO: Well, because, in my personal opinion, of the -- because of the individuals that the institution serves. As Ms. Smith mentioned, we had, for many years, an institution located right down the street from this building, at 319 Cooper Street. Regardless of issues like your ability to have a student complete and have placement statistics, those are things that I feel an institution should be judged by; not by a default rate, but by truly educational outcomes.

Regardless of those issues, you have a situation where individuals who come from an economically disadvantaged background are not capable of repaying a loan. They do not have bank accounts. They do not know what it means to write

out a check and send it in to a lender. Certainly, with all of the unbelievable confusion of the Guaranteed Student Loan Program-- I have a girlfriend who recently finished her baccalaureate degree and had to come to me to sort out four years' worth of Stafford loans, because she couldn't figure out who to repay. So certainly an individual graduating from a 600-hour program is going to have a lot of confusion to deal with when they are getting letters from a lender, a servicer, a secondary market, a guaranty agency, etc., etc.

These individuals have no support systems. Yes, they could go to work, but that was not going to pay for their child care, and that was not going to pay for their health benefits. None of those support systems were in place. Now, we are fortunate enough in the State of New Jersey to have what I am still referring to as "pilot programs," that are working toward welfare reform. One of the things that everyone has come to a realization on, is that those support systems must be there for economically disadvantaged students. They can't just do it on their own. They can't simply leave school and begin a life of work. They need the support systems, such as health care.

SENATOR EWING: But everybody in life needs to have hope. You are taking someone in, in a school such as yours and the others, the proprietary schools, and you know there is no real hope for them to get a job afterward. To me, that is morally wrong. I don't see why you take them.

MS. RUSSO: I think that statement is totally incorrect. We do not take students in with no hope of the student getting educated. Have you ever visited one of our proprietary schools, sir? We are the only ones, the only ones, giving these individuals a hope. We are the only ones who are encouraging people and saying, "Okay, maybe you have had a tough life. Maybe you have been dealt a raw deal in terms of your economically disadvantaged surroundings. But you can change your life."

Proprietary schools not only train students, but they encourage students to become segments of our society -- a profitable segment of our society -- someone who pays taxes, instead of taking home a welfare check or an unemployment check. We are the only sector of education that is concerned with these students. Everyone else out there has simply forgotten about them.

SENATOR EWING: Do you give a test to these people when they come in?

MS. RUSSO: This goes back to some comments by Dr. Henry. Under Federal regulations, all schools that offer Title IV assistance are required now to independently have administered an ability-to-benefit test. This test must be approved by the United States Secretary of Education. It must be independently administered by an entity that has no financial or any other type of relationship with the institution, other than an arm's length agreement to administer that test.

SENATOR EWING: Who gives yours?

MS. RUSSO: Again, I do not work with the institution day in and day out.

I would not know who that person is. Right now, as far as a policy, Kane Business Institute does not take a student under the ability-to-benefit provision. When a student comes in who does not have a high school diploma or a GED, they are encouraged to go into a GED program. There is a program that is offered there at that facility, where students can either be sponsored by a local entity, or they can go free of charge, if that local entity, for any reason, will not sponsor them.

SENATOR EWING: They can go free?

MS. RUSSO: Yes.

SENATOR EWING: And eventually get a GED?

MS. RUSSO: Exactly. So, see, it is not all about proprietary school owners making all kinds of money. It is not about a revolving-door type of institution. As you can see on your list, not only is there a 64 percent default rate, but the number of borrowers entering repayment, I believe, is 33. That hardly seems like a revolving door, to me. There are not hundreds of students. There are not all kinds of big bucks being made. There is an earnest effort to educate students and to help students who are in need of that help; students like we are surrounded by here in the City of Camden; students who no one else cared about. That is why there is a 64 percent default rate.

Unlike other institutions, my parents would not listen when I personally told them to get out of the City of Camden. Although it did not sound like the right thing to do morally, they had to worry about the future of their business, rather than whether or not the people of the City of Camden had any hope.

SENATOR EWING: Come on, I think the school system here has certainly come a long way from what it was 15 to 20 years ago. I think they are offering a lot of people help. Tragically, the lack of parental involvement is so strong that, you know-- It is just tragic.

MS. RUSSO: Even as a young person myself, I mean, I served as a figure to many of the young mothers who were at this institution. I worked down the street here for four years. Certainly, there was no support. If there was no parental support, it was not only that, but it was, "I can't come to school anymore, because if I do, my boyfriend is going to beat me up." There are all kinds of issues. "I missed school yesterday because my best friend got shot on the corner in the middle of a drug buy." There are numerous issues that are happening here, in Newark, in Jersey City, and in all kinds of places throughout our State.

But the answer is not simply to shut down proprietary schools. The answer, on a legislative level, is for us to realize that there is a problem there, and figure out what we are going to do with that segment of society that needs something. Public education--

SENATOR EWING: There is no intention of shutting down proprietary schools, but they have to toe the mark, and also not cost the taxpayers, as well as colleges that have students that drop out and don't pay their student loans, etc. I mean, it is a massive thing, but all the taxpayers are suffering from it. Something has to be done about it.

MS. RUSSO: Certainly. But again, I would have to reiterate that it is not-- A default rate is not a judge of educational quality. We need to start looking-- There is Federal legislation that has been proposed. We need to start working toward an outcomes assessment point of view. We need to look not only at default rate as an indicator, but certainly a completion rate, a placement rate, and the Federal legislation also provides for an allowance for doing a tougher job than anybody else has to do; that is, it looks at the economically disadvantaged history of your institution, of your students. It looks at the population you are serving.

SENATOR EWING: Yes, but an awful lot should be done-- I should think the majority of that should be done at the local school system, up through 12th grade, so the student, when he comes out -- he or she -- can read and write. Tragically, in so many places, illiteracy is so high.

MS. RUSSO: All institutions of higher education would benefit very greatly, whether it be a proprietary institution or a community college of a stronger school system -- through 12th grade. I met many young ladies and young gentlemen in my school when I worked down the street here who had a high school diploma from Woodrow Wilson or Camden High, who would not have been able to pass an ability-to-benefit test.

SENATOR EWING: I can believe it. That was the system down here. We hope that it is gradually changing. That is where we have to really keep pushing the effort.

SENATOR HAINES: Yes, I have a few questions.

You said that there is a test given to prove whether the education would be appropriate for the individual involved, but that you don't use that. Is that correct? Did I hear you correctly?

MS. RUSSO: No, that is not correct.

SENATOR HAINES: You use that on all your students?

MS. RUSSO: Any student that will receive Title IV funds must, under Federal regulations, take an independently administered, approved ability-to-benefit test. It is not simply a decision on the part of the institution that the student can benefit from the training.

SENATOR HAINES: But all the students who get loan funds take that test? Is that correct?

MS. RUSSO: Absolutely.

SENATOR HAINES: All right. Secondly, what is the percentage of your school's time that is spent on remedial education, and you said this is free?

MS. RUSSO: The remedial education, so to speak--

SENATOR HAINES: No, I mean to get to high school pass level.

SENATOR EWING: GED.

SENATOR HAINES: GED.

MS. RUSSO: The GED Program-- What I said was, that it is either sponsored by a local agency or, if, for whatever reason, that student is not able to be sponsored by that agency, the students are permitted to attend it for free. They are not required to pay for it. We don't want to take a student who doesn't have a high school diploma or GED, because we have found in our own statistics, in our own studies, a correlation between ability-to-benefit students and those students who ultimately default on student loans.

SENATOR HAINES: One of the reasons I asked this question, and I have continually, is that at Burlington County Community College there is an example; there are a great many students who get their GED and then do not go on further. We've spent an awful lot of time and money getting them to high school equivalency, but then they don't go on further. Do you find that this is the case with your students?

MS. RUSSO: It varies. Again, I don't-- Let me just reiterate, I do not work at the Institution on a day-to-day basis, but I will share with you the extent of my knowledge of the issue. I certainly find that it varies. Some students will decide that they will use the GED education to further themselves at Kane. Some students will use the GED education that they obtained at Kane and will go on to other institutions to attend a vocational type of training course that is not necessarily offered by Kane, and some students will do absolutely nothing with their GED.

A lot of it has to do with the fact that there are local agencies that are contracting for this education. Those local agencies have case managers and caseworkers who organize the entire plight of that student. If that student is not encouraged to go on with their education by a case manager, if that student is not told, "Look, the rules are-- This is a welfare reform program and the rules are, you either go on with your education and become a working individual, or you don't have a welfare check anymore." Because case managers allow students to have, at times, sporadic attendance until the Institution has to do something about it, the GED Program has its pluses and minuses. It is the agency paying for the money, so the agency has to contribute.

SENATOR HAINES: So you find there are students who do this as kind of a hobby? I have a friend, I think he graduated from high school the same year my son did -- and my son has

been out of college for 10 years -- and this guy is still going to college. Are there permanent students that you find in your school system?

MS. RUSSO: When we're dealing with the issue of economically disadvantaged students, what I have found in my career with this type of student is the student is not always convinced that this is something that they want to do, that they need to do. Oftentimes, they are influenced by issues like their interaction with a case manager.

So, essentially, what I have found in terms of the remedial training is that the student will attend faithfully when they are forced to by their case manager. When the case manager backs off and doesn't worry about that file for a while, the student has sporadic attendance; they may drop out. Then when the case manager again gets around to that file and says, "Hey, wait a minute, you were supposed to be in school. Remember I told you that your welfare check depends on your attendance at school?" Then, all of a sudden, the student is back at the door of one of our institutions saying, "I need to come to school. I need to be enrolled."

SENATOR HAINES: Well, then these students may be somewhat permanent students?

MS. RUSSO: As long as the local agency will continue to fund them. Again, I'm speaking here of the remedial programs.

SENATOR HAINES: Because that is not really what we're after. We don't want somebody who is going to continue to go to school just to get their welfare check and not progress.

MS. RUSSO: Right, and that sounds like a serious flaw in some of the welfare reform that we have happening, or at least an area for improvement.

SENATOR HAINES: Okay. The other thing is, do you feel that the education at the school is adequate for them to get a job, a proper job? It seems as though when you have 64

percent who aren't paying, that they maybe graduated but couldn't get a job because the education wasn't adequate.

MS. RUSSO: No. What 64 percent says is; 64 percent of the individuals who entered repayment in that particular fiscal year, defaulted on their student loan by the end of the second fiscal year, or the fiscal year immediately following that.

So that is no more an indicator that the quality of education wasn't there than an individual defaulting on their car loan is an indication that that dealership is a fraud, or people who are defaulting on their FHA, federally-backed mortgage is an indication that that real estate agency is a fraud.

No, the indicator of educational quality is exactly what you said; it would be truly looking at the completion and placement statistics.

SENATOR HAINES: Well, maybe some of your courses are geared to fields where there are no job openings. We just heard from Cumberland County that they had closed down or slowed up the education for some of the nurses because they didn't have job openings. Are we, in your school system, educating people for positions that are not open? I mean, it seems as though there is something wrong when you have a 64 percent delinquency rate.

MS. RUSSO: Well, again-- Yes, what's wrong is that we are one of the few who are still around that have been serving the people who need it the most. In terms of the curriculum -- and, again, you can go to Vocational Ed and look at the history of the Institution -- we train students for jobs in computers. So I would find it hard to believe that that is not an area--

Whether you are employed by a hospital, a doctor's office, a lawyer's office, by a school system, by the average, every day office, insurance agencies, everywhere you go and

every place there is, computer literate individuals are needed -- individuals who know to run popular software packages. Again, you can look at Voc Ed and you can look at the history of our curriculums and see that, essentially, the core of what is being taught has more or less stayed the same.

The changes to the curriculum have included enhancements to the software packages being taught in order to keep up with what is popular out there, what the going thing is. The curriculum provides that students are not simply taught a specific software package. If they are taking a word processing course, they are taught the basics of word processing: What does it mean to edit, to delete, to move a paragraph. Then, by the use of hands-on with two or three different software packages: How do I do it with that package. And in this fashion, a student can go into any office, pick up any software package, and say, "Okay, now I know I want to delete, all I have to do is figure out how to do it with this particular package that my employer is using."

SENATOR HAINES: Well, here again, I think you're really not answering the question. Because I can tell you, I know quite a few people in the computer field who are unemployed.

MS. RUSSO: These are not--

SENATOR HAINES: I know there are many, many signs in many stores wanting employees in other fields. I just wonder if that is your problem, that you're training people for a field where there aren't jobs available. Now, maybe there are a lot of jobs in computers, but I know quite few people who are trained in computers who are looking for jobs.

MS. RUSSO: Well, I'm not talking about individuals who are programmers, systems analysts, or anything sophisticated like that. I'm talking about computer operators, individuals who need to know the basic workings of a computer. They need to understand a Windows or DOS operating system.

They need to understand how to run a software package. That is the way that our every day business all around us, survives, on these particular software packages. So, certainly, if an individual has that type of education, there is no reason why they should be unemployed.

SENATOR HAINES: I think you're about 10 years behind the times. What about your placement rate? What percentage of your students get placed?

MS. RUSSO: I don't know.

SENATOR HAINES: Well, that's the problem, isn't it?

MS. RUSSO: Well, no, the problem is that perhaps this has more to do with political issues than with what is actually in front of us.

In terms of a personal affront to myself, that I am 10 years behind the times, I work in education every single day of my life and have for the last 10 years. So I certainly know what is available out there, what students need, what students want, and what employers are employing people for. I am in no fashion outdated where that is concerned. Secondly--

SENATOR HAINES: You know, you say you're training people for computer use and yet, I don't think the jobs are out there. Can you prove to me the jobs are out there?

MS. RUSSO: Do you have a Courier-Post handy? We'll look through the want ads together.

SENATOR HAINES: You look at the percentage of delinquency here, and you're the highest.

MS. RUSSO: It has nothing to do with it. First of all, we are not the highest. I have the list in front of me as well, and we are not the highest.

SENATOR HAINES: I think you are.

MS. RUSSO: No, I think you're wrong. Okay, let's look at the list and let's give our information correctly.

SENATOR HAINES: Second highest then.

MS. RUSSO: Third.

SENATOR HAINES: Third, okay, but you're way up there.

MS. RUSSO: We also no longer participate in the Student Loan Program. Were you aware of that, sir?

SENATOR EWING: No, you didn't say so.

MS. RUSSO: It's right here. It's right on the little piece of paper you're looking at.

SENATOR EWING: I'm not looking at it. But how do the students pay for their courses then?

SENATOR HAINES: That was my last question.

MS. RUSSO: The students who are eligible for Pell grants would have a certain amount coming from there. Other than that, they make private payments, with no interest over an extended period of time.

SENATOR EWING: Well, the Pell grant is quite limited though, isn't it?

MS. RUSSO: Quite.

SENATOR EWING: They get that, and that's all they get?

MS. RUSSO: If they're eligible. The United States Department of Education, by their own admission, were forbidden from publishing this rate, because we no longer participate in the program, and because--

SENATOR HAINES: What--

MS. RUSSO: Excuse me, sir, if I could just finish.

Because we no longer participate in the program, we were forbidden from appealing the rate.

SENATOR HAINES: When did you leave the program?

MS. RUSSO: I believe it was about seven months ago.

SENATOR HAINES: And why?

MS. RUSSO: Because there are no lenders, so there is no money coming from the Student Loan Program anyway. Again, as the gentleman from Cumberland County spoke of, the more involvement that you have with the Federal aid programs, the higher and higher your administrative burden is in administering the programs and running the programs. So the administrative burden of having the program did not support the income from the program. It was a smart business decision.

SENATOR HAINES: The one thing we would like to have is the placement rate. We would like to have that from you. If you can't supply it now, could you get it to us?

MS. RUSSO: Certainly. Again, if I had had-- If all of us in the proprietary school community had had more warning of something important like this testimony today, we certainly could have been much more prepared for you. But in only finding out about it last Thursday, we're a little limited.

SENATOR EWING: This is an ongoing thing. It's going to take us a while to redevelop the legislation and everything like that. So it's nothing that we have tomorrow morning or anything.

MS. RUSSO: It's a number that is kept on an ongoing basis; however, I'll reiterate, I do not work at the school day in and day out. I am a private consultant. I have a different employer. I am representing the Institution today, and I would not just simply know off the top of my head what the placement rate is.

SENATOR EWING: Well, did they ask you to represent them?

MS. RUSSO: I asked.

SENATOR EWING: What?

MS. RUSSO: I asked if I could represent them.

SENATOR EWING: It's interesting that they wouldn't send somebody who knew more about the day-to-day, so they could answer the questions we've asked.

MS. RUSSO: Well, no. Actually, what we were told was that this issue had to do with default rates. We certainly were not told that it was going to be a personal attack, on the part of the Committee and Ms. Smith, on Kane Business Institute. So we were prepared for what the issue was. The issue was defaults, that's what we were prepared for.

SENATOR EWING: Fine. It's a broad thing, it's not a personal attack.

MS. RUSSO: In terms of defaults, I have more of a background and knowledge of the Federal Title IV programs than the administrators of the Institution.

SENATOR HAINES: I dislike your saying that this is political. This gentleman has been working on this legislation for a long period of time and is trying to get facts together so that when he presents the legislation to the Legislature, it will be something that will pass and something that will improve the system, and that is not political.

MS. RUSSO: That's why I was so anxious to come today, to have some input and to provide whatever knowledge I could. I have a very extensive background in this area and, by the way, a very unbiased background. If we were allowed to get away from the issue of Kane Business Institute, my background is quite unique.

One of the reasons why institutions like to hire me as a consultant is that I not only have an in-depth familiarity with ownership type issues-- I know what it is to have to worry about meeting payroll this week. Okay? I may not have been a stockholder, but I was intimately involved with the administration of the Institution. I have also been an employee of the Federal government, the individuals who come in and provide the oversight of the Title IV programs.

SENATOR EWING: I don't know whether that's a plus or not, with the Federal government.

MS. RUSSO: Well, I think it's an absolute plus to be able to understand how the Department of Education thinks.

SENATOR EWING: Oh, come on. Listen, Colleen, I think you are undoubtedly a very intelligent lady. But if you can tell me that you know how the U.S. Department of Education thinks, boy, you're really up there.

MS. RUSSO: Well, honestly, sir, that was the point at which I made my decision to leave. When I got scared enough that I was starting to understand their thought process, I knew it was time to go.

SENATOR EWING: Any data you can give us, or thoughts and ideas where changes should be made for the betterment of the student, we would love to have them. That is what we want.

MS. RUSSO: That is certainly what I would love to see; on both a State and Federal level, for once, if we would begin to think about the students.

SENATOR EWING: Well, let's forget the Federal level. We're not going to monkey with them. I mean, that is too difficult. If we can make changes to the aid, if there are certain key things that are really of utmost importance that depend on the Federal, then I'm perfectly willing to try to work on that particular piece, but not the overall Federal part dealing with the program.

MS. RUSSO: Well, again, I am, more or less because of my background, a proponent of proprietary education. However, as I said, I have an unbiased background and very honestly -- and I have said this to individuals who I work for and work along with -- for years we have all been saying, "If they would only judge us on the true issues. If they would only look at our completion and placement statistics, there it would really tell the job." I say to them now, today, that may be a reality very soon in the future. So I hope you're prepared for people to look at those issues.

SENATOR EWING: Definitely. But it's interesting that this Federal government report states that a Subcommittee investigation uncovered overwhelming evidence that the GSL -- Guaranteed Student Loan Program -- particularly as it relates to proprietary schools, is riddled with fraud, waste, and abuse, and is plagued by substantial mismanagement and incompetence.

MS. RUSSO: I commend Senator Nunn for his findings. The only problem was, that was a few years too late. See, he wasn't around doing his investigation when we had all of the horror stories of proprietary education. He wasn't around in

the late '70s and early '80s, when everybody and his brother who were into fraud and abuse, in general, got behind closed doors and in dark alleys, and said, "Pssst, I got this deal for you. There are these proprietary schools, and you can get loans to go to school." That is when Senator Nunn's investigation was needed.

At this point in time, the weeding out process is virtually complete. The ones that are still around are here because they believe in their students and they're trying to do a good job. There is a whole-- I carry this book with me everywhere I go -- of my Federal regs -- and I grabbed out one while we were talking about the ATB.

There will, by the way, be a process in place where instead of an approved test by the Department of Education, states will have the ability to approve a process for the ATB. So we will be in a position in the State of New Jersey to say, if an individual in our State is going to receive a loan to go to school at one of our proprietary institutions, this is what will have to go on.

SENATOR EWING: Good.

MS. RUSSO: But I carry that book around, and I know the regulations virtually inside and out. There is a lot that has to be done for these institutions to comply with the Title IV programs. The gentleman from Cumberland County-- I did program reviews at voc techs, and when I tell you he needs at least one full-time individual on staff to handle the Pell Grant Program-- There is a lot of administration burden in these programs, and the schools that are still around are here because they want to continue serving their students.

SENATOR EWING: Just the same way I'm a firm believer in regionalization of our public schools, I'm also a believer that vocational schools should certainly be working very closely with the County college, and having one person doing

the Pell grants for all of them down there. If there is any other college in the area, they should be combining it.

MS. RUSSO: Or they can always hire an outside consultant.

SENATOR EWING: What?

MS. RUSSO: They can always hire an outside consultant.

SENATOR EWING: That's right. You better give your card out.

MS. RUSSO: Thank you, gentlemen, very much for your time.

Anything else?

SENATOR EWING: No, thank you very much. But do you have our address and everything in Trenton?

MS. RUSSO: I have Mr. Cannon's information.

SENATOR EWING: Okay. If you've got some thoughts and ideas, then pass them up to us. Because it's going to take suggestions from all over the lot, from people in different types of operations, the way you are, for us to really come up with something that is going to help the student. That is the main thing.

MS. RUSSO: Thank you very much.

SENATOR EWING: Okay. Thank you.

Frederick Wilson.

MR. WILSON: Gentlemen, Senators, it's always good to come in in the middle of testimony, so I can build on some of the things that have been said already, or not said. There seems to be a couple of issues that we can talk about, at this point, that might help you understand our business.

I'm here as a spokesperson for Gordon Phillips. We operate two schools in the State of New Jersey. One is located not too far from here on Haddon Avenue, in Collingswood. The other one is located in Lawrenceville, New Jersey.

SENATOR EWING: Lawrenceville?

MR. WILSON: Lawrenceville, yes, sir.

We operate-- The school in Collingswood was established in 1983, the one in Lawrenceville, in 1990. Gordon Phillips has been in business for 30 years. Most of our business is in southeastern Pennsylvania; however, we operate a school in the Pittsburgh area and two in Baltimore.

Student loan defaults are a key issue for Gordon Phillips. We recognize that many regulators are using student loan defaults to evaluate our schools. We may not agree with it, but it's a reality in today's world that they are using these rates to measure a school. I'll be very honest with the Committee, our rates range from 6.3 percent to 30 percent. We find that the higher rates are usually in urban areas, and the lower rates are in suburban areas. This is backed by the scholarly research on student loan defaults.

There are certain categories of individuals who are more likely to default, and some of these are rather obvious: people who do not successfully complete the program are more likely to default on their loan; minorities are more likely to default on their loans; females; single parents with dependent children; and also, there is a correlation between the income of the family unit and the likelihood of default.

If Gordon Phillips were to eliminate all potential for default, it could eliminate admitting minority students. We could not admit females. We could eliminate persons with dependent children who are single parents, and we have an income criteria for admission to our schools; obviously, we can't do that.

Our orientation has been to screen applicants to the best of our ability. We cannot be 100 percent accurate. We consider a number of areas, we work with the students. But still, if you admit a single parent into your program, there is a high likelihood that person will not successfully complete the program, or if they do complete, will not go for their licensing exam or will not seek entry level employment.

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SENATOR EWING: Lawrenceville?

Why do we have a requirement for a high school diploma? We have adopted the philosophy or the procedure that since the requirement for licensure is a high school diploma or a GED -- and I use those interchangeably -- that it would not be reasonable for us, since we're engaged in a short-term program, to enroll people who do not have a high school diploma at the beginning of a 10-month training program. We encourage them to seek their GED, and then to come back to us and start the process.

We consider a number of factors at the time a student is enrolled. We look at the person's entry credentials, their high school diploma, we look at their scores on the ABEL. We also look at provisions for child care. We don't exclude someone for child care, but we want to be certain that the person understands the requirements of the course, and that making adequate provisions for the care of the children is a step that they must go through before they start the program.

We look at their employment background. We look at an individual who is a recent graduate from high school and we don't expect an employment background. But if we have an applicant who has been out of school for two, three, four, or ten years, we want to see that the person is conditioned to the world of work. Okay?

We are also interested in their prior post-secondary school attendance. A large number of our applicants have done course work, both at this institution and Mercer County Community College, and they have taken a course or two, a semester or two, and decided they want to do something differently. So, we look at that and we measure that. If we see an individual who has gone to three, four, or five schools, we go through an elaborate process to say, "What is going to be different at Gordon Phillips? Why do you think now, that this is the career that you want?"

We look at their prior student loan history. How much have they borrowed to date for attendance at other schools? Is it reasonable to add the Gordon Phillips debt, and to move forward? These are the steps we take.

I have three packages, which I would like to give to the group, if you wouldn't mind at this point. I'll go through some of the processes we follow. I only have three, sorry about that.

I hope it addresses some of the concerns of the Committee. On the left-hand side (refers to the handouts), since we're considering student loan defaults, we want to make sure that a person who takes out a student loan is adequately counseled. So we have an examination that we administer to the student to make sure that they understand the basics of what a loan is, how it works, how it's repaid.

We have both entrance and exit interview procedures to follow. Again, gentlemen, these are steps, they are not guaranties. On the right-hand side, I have our placement brochure. There is an insert in the back that we give to all incoming applicants, which lists a number of our recent job placements, so they can call this person up, call the salon up, and ask them what they think of the training.

The admissions application is important because you can see the process. We want to know who the person is, where they live currently, where they lived prior to coming to Gordon Phillips, what their interest is, what their education is, their employment-- Personal information: You'll notice in about the middle of the third page, we're asking them, "Who will take care of your children, if you have dependent children while you're in school." It's very important to us. We're looking for references.

We're also looking for the person to share with us whether there are any accidents, illnesses, surgery, because our business is one where a person must be on their feet for

long periods of time, so we need to know this information up front. We want to know whether there are any physical limitations. Again, because of the nature of the profession. "Are you taking medication?" We're using sharp instruments, we want to make sure that the person has all their faculties.

"Have you been arrested?" Because of the nature of the code for beauty culture, we want to make sure that this person can eventually be licensed, that they haven't been arrested on a felony which will prevent licensure.

We want to know whether there are any circumstances that they can share with us at this point which would preclude them from finishing the course. We also want to know what their thoughts are about how they intend to pay for the course.

We try our best to operate a business. It's a tough business, one where we welcome the oversight, but we caution those who regulate to be reasonable and not to jump in unnecessarily.

I'm going to rattle off, very quickly, 13 areas -- and I summarized them, so we wouldn't be too lengthy here today -- which I thought I heard throughout the discussions today:

- * One, giving information to prospective students so they can make a rational decision.

- * Assessment in advance of enrollment of whether they have the ability to complete.

- * That institutions maintain standards of academic performance.

- * That institutions-- I don't know whether I heard this, but it's one of these points that everyone-- That the institution is safe, that it is a facility that complies with local code requirements.

- * That the ownership has the financial and the administrative capability to conduct its business. If your institution is in that grey area where there are some indicators that it may have some financial or administrative

problems, that there is some extra special vigilance of that type of institution. They are referred to as at risk institutions.

- * That there is a relationship to what you pay in tuition and what you can earn as a graduate.

- * That there is specific information available to applicants on job placement, licensure rates, and completion rates.

- * That there is a relevance between the length of the course and what you are training the person for.

- * That there is an assessment of the ownership and management to make sure that they are individuals of high repute, and their background is not tainted with certain activities that shouldn't be involved with education.

- * That there is a grievance procedure or a complaint procedure.

- * That there is truth in advertising.

- * That there is a fair and equitable refund policy.

- * That completion rates, placement rates, and licensure rates are published and made available.

Gentlemen, what I have summarized here were each of the areas that the New Jersey Department of Education is dealing with currently under its SPRE Program. I bring them to your attention to caution this Committee to read the bill in the context, with the elaborate procedures that are in motion at this time, to regulate all forms of post-secondary education according to these standards. There is an elaborate procedure -- I happen to be one of the negotiators on this very important process. It was mandated by the Educational Amendments of 1992, those were the Federal amendments. I would hope that we don't trip over ourselves trying to install requirements or regulations in the Department of Education which would duplicate these procedures that are in place right now.

There is a wisdom out of Washington in standardizing these across the country. There is a second wisdom in allowing each state and each jurisdiction, with the educational professionals in that state, to fine-tune these regulations to that particular area and the reality of their existing organizations.

I would hope, Senator, that your legislation would fit like a glove to the SPRE requirements, because I think they're great. They're great for post-secondary education. They're healthy for us. I hope that whatever you do, fits with this process.

SENATOR EWING: Well, it certainly will. I'll guaranty you that. Also, just as we asked Ms. Russo before, if you have suggestions and ideas, we would certainly like to have them.

Also, I think what we will do before we finalize any legislation is to certainly pass it out to the people who have come before us today so you can review it. We'll send you rough copies of it and you say, "Look, take out this paragraph or change that word." Because, certainly, you people are the ones in the field and know what's going on.

I think your presentation has been excellent, and certainly it was very, very well prepared.

MR. WILSON: I heard a couple thoughts today about a single agency approval process. I think that is an excellent suggestion. We have schools in Pennsylvania and schools in Maryland. Maryland has adopted this single agency approval process, and there are pluses and minuses to it.

What you have with a single agency is, if you have a good board -- if you have a good board, and I think Cosmetology is a good board -- when you go to the generalized approach, approach to regulation, you lose this personalization. In cosmetology, it's a field where the board regulates both parts of the industry, the salons and the schools, and it does it well. It is an excellent approach.

In Maryland, I was afraid they threw the baby out with the bathwater. By going to the Maryland State Board of Higher Education, we now lack this fine-tuned regulation. So I would caution the Committee to look at that and not to throw the baby out with the bathwater.

The Tuition Recovery Fund: There are a lot of initiatives in the works to ensure that students are not put in jeopardy in the event that a school closes prematurely. In Maryland we have a state-mandated Tuition Protection Fund; however, the basis of that fund-- We pay into it each year, it's a reasonable amount, and its assets have grown over the years. At last reading, they have never had a claim on that fund. The reason is, it is not the first step. The first step is that, if a school closes, they try to provide for the education through sister schools. I think this is an excellent process to follow, because in many cases the industry themselves will make good on the errors of its colleagues. So I would caution the Committee to consider that you try what is referred to as teach out, as the first option.

Second is that the Federal government is considering certain levels of bonding, and that may be an area to be concerned with. We already place a bond with the State Board of Cosmetology. But I caution the Committee to not make the financial requirements such on this industry, that you put the industry out of business because of the reserves and the like that you have to put together.

Monitoring performance: Again, whatever agency you select -- and I would suggest that the SPREE outline is where we should be -- that that monitoring process be where we put our emphasis and not to create another agency to do what the SPREE is going to do.

With regard to civil penalties, I would caution not to make the business so hostile that no one wants to put their capital at risk. Remember that in vocational education in the

proprietary sector, there is not one public dollar which is invested in opening new facilities and building new facilities. This is all private capital. This building that we're in right now is a grand building, but I would guess that there were substantial State and county appropriations to put it up. So it is engaged in vocational education, but at quite a cost.

I know that we have been approached in Pennsylvania by a number of school districts, who felt that the private sector could deliver more economically certain training in cosmetology than they were able to do. So the issue is, what can the private sector do, and how effectively, and always to measure that against the full cost.

I would guess that the cost per student in a vocational school is much per year. The per capita cost is much higher than what our tuition is per year; different costs, different expenses, and a different mission.

I'll close at this point by saying that Gordon Phillips will continue to do its role in helping students, adults, who want the kind of training that we want, to: first, understand the nature of our training, understand the nature of financing, and if they select a Stafford Loan, or any other form of student loan to fund their education, to understand the obligation which they are incurring and the consequences of nonrepayment.

In closing, and I'm sure the Committee is familiar with the concerns about the Stafford Loan Program and understand that it is being phased out. It is a Program which is flawed. Congressman Rob Andrews was instrumental in developing a Direct Loan Program which, hopefully, will bypass many of the flaws in the student loan program. But when a student defaults on a student loan, the word is more appropriately in commercial terms, referred to as a

delinquency. They are 180 days past due, and the paper is sold or guarantied by the Federal government. The guaranty agency takes over the paper and attempts to collect on it.

I do not know the statistics in the State of New Jersey. I do know in Pennsylvania that the State Guaranty Agency boasts that it is able to put 50 percent of the loans back into repayment when they take them over. They are quite proud of that rate.

My question is: If they're able to put this back into good standing, why couldn't the initial lender, the initial servicer? Why weren't they more successful with that loan? The reason is, they are incented, because of the low margins on this program, to sometimes file a claim after going through what they call the minimal due diligence steps. If you sit in on a meeting with the lenders, they'll talk about hitting the buckets. They have to hit the 15-day bucket, the 30-day bucket, the 45-day bucket, to ensure that their guaranty is there at the end. So the program has degenerated and is on its way out.

At this point, 40 percent of the loan volume starting July 1, 1995, will be in Direct Loan Programs. Gordon Phillips will have seven of its nine locations on the Direct Loan Program on July 1. But we will still be very interested in our students, that they understand their debts, their obligations, their loan obligations, whether it is a Direct Loan or a Stafford Loan Program. But we will never, by the nature of the people we enroll in our schools, we will never have 100 percent success. We strive for that, but we will never be there.

Gentlemen, thank you very much.

SENATOR EWING: Thank you very much. I have one question. On the tuitions that the proprietary schools charge, are they paid up front, or on a term basis?

MR. WILSON: No. If a student enrolls in Gordon Phillips, most of our students, to be honest with you -- to be very honest with the Committee -- pay for their tuition in a

deferred manner over the course of their course. Some of the students are using student aid, and student aid is apportioned in at least three payments over the course. The student must complete the section. In the jargon of the profession, it's called "payment periods".

So, it's the first 450 hours and then 900 hours -- our program is 1250 hours -- the final 350. So the payments are apportioned out over that period of time.

SENATOR EWING: Well, when they get the loan, do they get it all at one time?

MR. WILSON: No, it's in payments, and roughly-- When a student first starts school with us, they would get a payment of \$1200 on their loan. Now, they may borrow a total of \$3200, but it will be apportioned out over the course. If they don't complete a section, we're not entitled to any more of the loan. In fact, we may have to refund some of the loan amounts.

SENATOR EWING: You do refund?

MR. WILSON: Absolutely.

The other area that was discussed was on refunds. The Federal government implemented a pro rata refund. In our program, refunds continue on until 540 hours into the program. There is a pro rata refund all the way through that period.

This is the same in traditional schools where, for first-time students -- and most of our students are first-time students -- you have to give a refund up to the 60 percent point. In the traditional school, it would be a semester. In our institution, it's the first 900 hours of instruction.

So there are controls already built into the student aid programs which ensure that refunds extend over a long period of time in the event that you have a student who comes in, spends a month or so in your course, and decides, "This is not for me." If they want to withdraw, there is a charge, which is equivalent to the period of time that they spent with you.

SENATOR EWING: Then do you notify the lender that he has withdrawn?

MR. WILSON: We notify the world that they are no longer with us. We notify the borrower -- or the student -- of their termination and the disposition of their account. We provide them with an accounting of their refund. We inform the guaranty agency -- which is New Jersey's agency -- of the refund and the withdrawal, and the lender.

SENATOR EWING: Okay, thank you.

MR. WILSON: Thank you very much.

SENATOR HAINES: Just one question, and that is: What is your placement rate? Maybe you went into this, because it looks like you've got pretty good placement.

MR. WILSON: I brought everything but the kitchen sink in that bag, but-- What we do is, at the time of enrollment, we have a disclosure statement which we provide to each student. The disclosure statement has three components to it: our completion rate, our placement rate, the expected starting salaries in the industry, and the physical requirements. There are four components to it.

I'll provide the Committee with a copy of the disclosure. I would say that my recollection of the disclosure for both locations is, they range from 70 percent to 80 percent of graduates are placed. But this is-- Before a student enrolls in our school, we have him sign the disclosure statement.

What is the origin of all these requirements? It is our accrediting body. Why? It's not because Rick Wilson did all this, although some of it is mine in origin. But it's because these are the standards that have evolved over the last five to six years from our accrediting body, or have been mandated by the Federal government, or have been mandated by the various State agencies that regulate our schools.

But it is a very rigorous regulation, and I hope that you will not layer on repetitive regulation. There is a need to standardize, and I think that's the feature of the SPRE Program. I think you'll see that the SPRE requirements will standardize in this State and all states, a level of regulation which is appropriate. It's an excellent process because the regulated are participating in the process.

Thank you very much.

SENATOR HAINES: I just want to say, I want to thank you for a presentation that is complete, in spite of the very short notice. This answered most of my questions, right here -- what you have done. Thank you very much.

MR. WILSON: Thank you.

SENATOR EWING: Lee Coblegh?

LEE COBLEGH: Thank you very much. I believe I have good news. I have placement rates for the last five years.

SENATOR EWING: Excuse me. Would you say--

MR. COBLEGH: Lee Coblegh, Omega Institute. I'm so excited to answer that last question for you.

SENATOR EWING: And what does Omega do?

MR. COBLEGH: We train in many various fields, in legal fields, medical, hospitality, computer, and business-related careers.

SENATOR EWING: And where are you located?

MR. COBLEGH: We're in Cinnaminson, New Jersey.

SENATOR EWING: That's just in Cinnaminson?

MR. COBLEGH: Yes, just in Cinnaminson.

SENATOR EWING: And about how many students do you--

MR. COBLEGH: About 350 students a year.

SENATOR EWING: Okay. Thank you.

MR. COBLEGH: I am sort of proud to tell you what our placement rates are, our retention rate, our dropout rate, and our default rate. I won't bore you for the last five years, but for the last three years, our placement rate was 88

percent, 85 percent, and 86 percent. Our dropout rate was 11 percent, 11 percent, and 7 percent.

I want to sort of tell you about the population or the mix of our students: 37 percent of our students are single parents; 30 percent are minorities; and 44 percent are below the poverty level.

Now, how do you measure a school? You measure a school by their placement rate and by their retention rate.

I also have, in here, the governing bodies that come into our school every day. I won't bore you, but we could just flip through, and whether it's JTPA, whether it's the accreditation committees, whether it's Workforce Development-- We have to have audited financial statements every year. We have to have an audited financial compliance audit. So there are people coming in every day, and the only way that I could really convince you, because these ay sound like some exaggerated statements-- I would be thrilled to death if a governing body were to come in and really review what we do at Omega Institute.

However, as I mentioned, 44 percent of our students are below the poverty line, and 37 percent of our students are single parents. Thirty-six students in our school defaulted. Now, when you look at the population, when you look at the graduation rate -- I said that we have about 350 students a year -- and all this is documented, only 36 students defaulted. However, that is above what the government is looking for, as far as participation in the Federal Student Loan Program.

Now, why is that? When you look at the population, when you look at the graduation rate-- By the way, of the 36 students, five of those students the government counted twice. They counted it last year, and-- But they can technically do that -- they can technically do that. These students are tracked over a two-year period of time. Depending on what month they fall in, a student can be counted twice.

Keep in mind, we're talking of 36 students, 5 of which were counted twice. Seven students will sign affidavits saying that the guaranty agency had no compassion at all.

Most of these students are graduates from the school. Most of these students are people who are working, and yet, once in a while-- When you're only dealing with 36 students, there is a possibility that you're going to have a few who are going to run into some difficult times. If a student has two or three children, once in a while they are going to run into a bind. These students will sign affidavits saying that they didn't have cooperation in order to get them over that little hurdle.

Another thing: Each one of our courses at Omega Institute is PONSI approved. What is PONSI? It's the American Council on Education. It is a college credit recommendation. This may sound like an exaggeration, but those credits can be transferred to Rutgers University.

Now, once again, that may sound like exaggeration, but what you would need to do is really check out and verify what I'm saying.

Omega's tuition is \$5.60 an hour. When we look at what a person wants to earn out in the workforce, nobody wants to earn \$5.60 an hour, yet that is what our tuition is. I happen to have what the tuition is for different colleges and what it costs per hour in public and in community colleges. Once again, I won't bore you, but I have all the documentation, and I would be more than happy to submit it.

It costs \$27 an hour to educate someone in the community college. Now, not for one minute would I ever want to replace traditional education. We have the finest universities, and whoever came up with the idea of the community college, it was fantastic, because it really bridges a gap. However, 50 percent of our population never even attempts to go to college, and those that do, 50 percent drop out.

What I am suggesting is that Omega Institute is a good school. Omega Institute can verify its statistics. These are audited statistics. When JTPA comes in, they come with auditors. When each governing body comes in, these are-- They have to be audited, and so these statistics have to be proven.

When we look at the careers that we're training these students in, we're looking at careers where we want those students to get a job, because if they don't get job, I wouldn't be able to come here today and be so proud of what we do.

Omega Institute has never had a complaint in the last five years. That may sound like an exaggerated statement, but that can be checked out.

Omega Institute -- now, this may really sound like an exaggerated statement, today -- has never lost an employee, and our employees don't get paid what they get paid in the public sector. You can, at any time, come in on the q.t. or an announced visit, and you can ask our employees if they would want to be anywhere else.

Every one of our students is required to take English. It's required. Every one of our students is required-- The first course that they take is human relations, because there is a breakdown in our social structure, and not everybody has fallen into the traditional way of doing things.

Most of our students, after coming out of high school, have to learn life the hard way. And after two or three years, recognizing what they tried to do isn't going to work, they come to Omega Institute and say, "Now I'm serious. I want to do something with my life. I want to get a job, and I want to get skills."

Each one of those jobs can be documented through employers. Each one of our courses-- Our Medical Program is a course that you can sit for a National Registry Exam, and you can become registered as an RMA. Our Phlebotomy Program, you can become a certified phlebotomist.

Our students take advantage of this. Why? Because they are proud of the profession that they are in.

What we try to do, where it's mandated -- and when I say "Where it's mandated," where it's possible -- we want our students to be able to take these certification tests. We want our students to be able to feel proud that they are taking college-level work. Five percent of our students are students who don't have a high school diploma, and so we accept those students under the ability-to-benefit program.

But what happens? The environment, the success level, starts to rub off. Do we win them all? No. We can't win them all. But do we try to win them all? Yes. It is difficult to train students who have had, perhaps, a poor background in the past, or they are single parents, and they have two or three children. But it is also rewarding to see the end result.

We were talking about computer careers. We have to understand, when we look at our society today, most people feel insecure if they don't know something about a computer. If the only thing that you did -- and I'm not saying that you do this, because you can see I take this very seriously -- but if all you did was to take insecurity out of that person's life by giving them computer training, haven't you done more than not giving them training?

The thing about a career, it not only gives you a skill for a job, but it gives you a feeling of success, which is self-esteem. That can't be replaced by doing anything else. Education is the only thing that not only gives self-esteem, but it's the one area that will also bring in the reward of financial stability.

Are we living in an economy today where we can be proud, as Americans, that there are employers out there paying a lot of money for a lot of things, for a lot of different jobs? Well, yes and no. First of all, compared to the tuition, they are paying a lot more. I don't want to say to

you how much our average student makes when they leave Omega Institute, unless you press the issue. If you were to ask me that, then I will answer that. But one of the things you have to be careful of when you're talking to students about going to school is that you don't put the carrot out there, and you tell them that they can make a lot of money if this is what they intend to do. It takes a lot of work. It takes rebuilding a foundation, and it takes making things happen over a long period of time.

I think the best thing to do, we found out years ago-- If you want to research mental health, talk to healthy people. If you want to research what education in the private school sector is -- I call it the private school sector because I am very, very proud-- Most people who are working are working because of the free enterprise system -- the private sector, and it's something we need to be proud of. I think what we need to do is bring somebody into leadership who is respected by government, education, and business and give us the opportunity, because, yes, five years ago -- a few years ago -- there were schools that shouldn't have been providing educational services. For the most part, that has changed because of all the oversight, because of the fact that people are now looking at other things.

However, what do I do about my default rate? That's why we're here, and that's why I'm here today. If you agree with me that I serve a high-risk population, and if you agree with me today that we do a darned good job of educating and getting students jobs, then you're going to have to agree with me that 36 students is not a lot of students in that environment to default on their loan. But we may not be able to participate in the Student Loan Program, because we're over the 25 percent level.

Now, I could understand if we had 1000 students in default, and it looked like our default level of 31 percent was very high. We're talking about just a few students. And yet

it gives the impression that this institution that I represent is an institution that has a high default rate. That is so far from the truth. We need to take a closer look at what the default rate is, but what we have to do is, we have to see what does it really reflect. I think if we really do that, we'll allow the good schools to continue to serve the population that they serve.

Are there still a few bad schools? Yes.

SENATOR EWING: Sure. Tell me, how many of the students eventually start paying again? Aren't there a few that do?

MR. COBLEGH: In our school?

SENATOR EWING: Yes.

MR. COBLEGH: Yes. Yes, they do. In fact, 80 percent of them do. It's just that when they're going to school, and when they have children--

SENATOR EWING: No, I understand that.

MR. COBLEGH: --and when they're getting a new job--

SENATOR EWING: But eventually--

MR. COBLEGH: Absolutely. You see, they're only triggering a time period, and it's hard sometimes for them to get a-- But the majority of them do.

SENATOR EWING: How many students do you turn down for application to start school with you?

MR. COBLEGH: How many students do we turn--

SENATOR EWING: Not how many, but do you have a fair number that you do not accept?

MR. COBLEGH: Absolutely. Not everybody is ready to be a paralegal, and not everybody is ready to be a computer technician. So there are those who are not going to come to school.

SENATOR EWING: So you do turn down some people?

MR. COBLEGH: Yes.

SENATOR EWING: Questions?

SENATOR HAINES: No, I don't have any questions.

SENATOR EWING: Thank you very much. I appreciate it.

MR. COBLEGH: Thank you.

SENATOR EWING: Is Mr. VanDemark here? (no response)

Robert Hogan? (no response)

Alan Harris?

A L A N H A R R I S: That's me. Good afternoon.

SENATOR EWING: Good afternoon.

MR. HARRIS: Do you have a preference? (referring to microphones)

SENATOR EWING: Either one, take your choice.

MR. HARRIS: I had not really intended to speak. I hope you will forgive my informal attire, and also the fact that I have no prepared presentation.

SENATOR EWING: That's all right.

MR. HARRIS: My name is Alan Harris. I am the owner and president of Harris School of Business. You'll find, on our list, our default rate for this past year was 14.6 percent. So, by the Department of Education's standards, we're considered a "good institution."

SENATOR EWING: Where are you located?

MR. HARRIS: In Cherry Hill, New Jersey, right on Route 38.

One of the things I would like to point out, and again, I'm going to try to take a different tack on this and try to get away from a lot of the governmentese and sort of Department of Education technobabble that surrounds a lot of these issues.

To a great degree, I think the measurement of the quality of an institution, which is what the Department is trying to get to in a roundabout way -- the Department of Education-- By using the default rates, they are trying to apply a qualitative assessment to a school by an indirect means. They look at your default rate and say, "Well, gosh, if your default rate is 50 percent, that says one of two things.

It says you either have no admissions criteria, and you're just trying to process anybody who walks, slides, floats, or glides in your front door for a financial aid package; or you have no educational program. Once they get there they may be qualified students, but you don't teach anything, so conversely, when the students get out, they're not prepared for employment, hence they default on their loans." Although you would look at that on the face and say, "That would seem to make sense," I will tell you that it is incorrect. And this comes from someone who has a comparatively low default rate.

It is not a reasonable assessment to make for an educational institution because, as a number of people have pointed out here, the law of unintended consequences has come to play in this.

The Department of Education looked, a number of years ago, at this issue. I think three years ago, the payoff on the Student Loan Program was about \$3.6 billion that went into default. Immediately, everyone started to, like, go crazy about this issue, and, "Oh, we've got to regulate the schools."

Well, as part of the draconian response that the Department of Education embarked on, about five years ago, 50 percent of all the proprietary schools in this country have closed in the last three years. So there has already been a tremendous weeding out process by both the accrediting bodies and the U.S. Department of Education.

But I will, as some people have pointed out here already-- I know of one school in North Jersey, Empire Tech-- The owner of that school is a guy named Timothy Rogers, a very straight-arrow, legitimate guy, not running a fly-by-night. His default rate is also in the high 50s or low 60s. He is in the middle of Newark.

Now, the reason I tend to think of this as kind of a political football and a smoke screen issue at the highest levels of the government, is because it is an easy mark to

make. I guaranty you, at the 62 percent or 64 percent default rate, what that means is, for the period of time that they measured, the number of students who received loans at that school who are going into repayment in the year that they were measuring, defaulted. The bulk of those students lived in Camden, and many of them were also recipients of AFDC, Welfare, and other programs like that.

I give you that if that school succeeded with 40 percent or 50 percent of the students who borrowed money to go to that school, that the true cost-effectiveness of the \$2625 -- the \$2600 the government paid off in defaults-- If half the people that went to that school are now employed and paying taxes, that was a very cheap bargain to make, because no one really looks at the whole economic assessment of this problem.

Proprietary schools -- the private sector -- you can think of us, by and large, as retail education. You can go to the county college, and that's wholesale education. It's good for a lot of people, but many people have other needs that need to be addressed and need a much more personalized environment. I thought this meeting was at Camden County College. That's why I was late. I drove out there first, not having carefully read the notice. When I got there I parked--

SENATOR EWING: What do you teach?

MR. HARRIS: Excuse me?

SENATOR EWING: What do you teach, if you don't read carefully? (laughter)

MR. HARRIS: Actually, I don't teach at all. I'm an administrator, so I don't--

SENATOR EWING: Okay.

UNIDENTIFIED SPEAKER FROM AUDIENCE: That's even better.

MR. HARRIS: That's right.

But I went out there, and I parked on that 15 square acres of asphalt and tried to asses which building I was supposed to go into. Part of the distinction between the

wholesale and the retail approach to education is that in almost any of our schools here, the student/teacher ratio is anywhere from 12-to-1, 15-to-1, or 18-to-1. Omega said they have 350 students a year; we have about 200. I guaranty you that at Rowan, where there are 21,000, if someone doesn't show up for class three days in a row, there is no one who calls their house to find out where they are.

We deal with a different kind of a population. I'll give you an interesting statistic from the Department of Education, and I believe this is fairly accurate. Of 1000 high school freshmen, on a national average, at the end of four years, 700 will graduate and 300 will not. Three hundred are going to drop out of high school. Of the 700 who graduate, 350 will go to college and 350 will not. Of the 350 that go to college, at the end of five years, 70 will have a baccalaureate degree. We train the other 930.

By and large, the programs offered at the county colleges are very good. I agree with Mr. Coblegh's assessment. I know that our programs, we charge a little more. We're about \$6.25 an hour. But if I charge \$5000 for a six-month program, and I'm required by law -- by the Department of Education -- to make a profit-- As soon as I begin to go into the red, I lose my eligibility to participate in the Student Loan Programs, because a school at risk cannot administer Federal funds. I'm required by law, in participating in the Student Loan Programs, to be profitable. So for me to charge \$5000 in a six-month secretarial program and make a profit, I know it has got to cost the county college \$20,000 to offer that program. Why? You don't see a track team at my school. There is no swimming pool. There is no dormitory.

We have to make it. We are unsubsidized. No one is sending us a grant for a new computer lab. So we are, without a doubt, more cost-effective.

But one of the things which happened when the Department of Education embarked on this witch-hunt -- and believe me, I won't lead you astray; yes, there were schools that should not have been in business -- we saw a parade. First it was the Department of Defense and \$300 hammers. Then it went to HUD, and that was in vogue for a year, with all of the abuse that was going on there. And then finally, the worm turned, and it came around to proprietary education. Two years ago, Stanford University was brought to the forefront of the news because they received \$22 million a year in research grants from the Federal government. And it was discovered that that money was going to pay for the Board of Trustees to go to the Bahamas for two weeks and have Board meetings. It redecorated the Dean's house and paid for his wedding. But there is no "Mr. Stanford."

Ohio State University loses more financial aid than anybody in this entire school even draws in the course of a year, but there is no "Mr. Ohio State."

The assumption is, if there is a Mr. Harris at Harris School of Business, and they have got a 50 percent default rate because he has just been taking anybody into that school to make money -- the assumption is that I'm driving around in a "Bemeer" on public money.

SENATOR EWING: Are you?

MR. HARRIS: No.

SENATOR EWING: Okay.

MR. HARRIS: So it's very easy to come and attack us. Yes, there were schools that should not -- that had access there.

SENATOR EWING: Nobody is attacking you.

MR. HARRIS: Well, no. The industry has been attacked. I'm not saying anyone here, personally. And to a great degree, the weeding out process has already taken place. The few that are still standing are the people who are in it

not just for the money, because with all the administrative costs the Department has added over the last few years, with the required audits, assessments, and paperwork that we now have to generate, the administrative costs of running a school have narrowed the profit margin down so small that anybody who is in it just for the money is going to go sell storm windows or something else where they feel they can make a better buck.

As part of this process, just to let you know where I think this-- It gets a little confusing. Where most of the defaults have taken place, even in the proprietary sector, they have been in urban institutions, because they deal in poor, minority populations -- not separate, either poor or minority, or both. By and large, these people are most likely to default.

Now, at the university level, historically, black colleges and universities are exempt from all the default regulations. Yet an institution that has an urban environment that is in the proprietary sector is not.

So I would give you the supposition that to a great degree, this is somewhat of a smoke screen issue. It's very easy to take the proprietary sector and single us out. But by and large, the students -- Cambridge Institute, that used to have a school here in Camden-- Believe me, Camden County College, even with their lovely new facility that my tax dollars helped pay for, were not clamoring for the students that were at her school. They would just as soon not have them.

And quite frankly, in the sort of feeding chain of higher education, the proprietary vocational sector are considered bottom feeders on the food chain of education. But we do not view ourselves in that way, because we provide a much needed service at a very high level of hands-on and customer service in a way that the public sector simply can't afford to offer.

One thing I will agree with -- the gentleman from Gordon Phillips-- Right now, we are in the process-- I don't know if you're familiar with SPRE, but under the SPRE

regulations, each state has to develop their own guidelines. If the object of this public meeting was to try and guide the State Legislature, in some way, as to what State regulations they want to begin to write into law regarding regulations, I implore you, I'm regulated enough already.

The Department of Education in Washington has default regulations. The SPRE is developing regulations. Everybody is developing regulations for us. In fact, I sat down with my sister yesterday -- the other co-owner of our institution -- and I said, "I don't even know how I'm going to keep track of this anymore." I'm going to have to come up with some kind of matrix where it's, like, the SPRE, the New Jersey Department of Education, the U.S. Department of Education, the accrediting body-- Everything I do in the school, I'm going to have to plug in to figure out who has something to say about it, and what are they saying.

So before you, in the best of intentions, try to protect the public, whose dollars, ostensibly, these consumer-oriented regulations in a roundabout way are targeted at helping-- Before you go too far down that path, keep your eye on what the SPRE is developing, and let them, under that guidance and regulation, let them have their say and kind of leave the State, to whatever degree is possible, out of it. Because they and the Feds are already drafting their own set of rules for us to deal with.

If you have any questions for me, I'd be more than happy to answer.

SENATOR HAINES: I can make a statement. The Governor is trying to cut down on regulations, and we're trying to help her.

MR. HARRIS: Well, anything in that direction--

SENATOR HAINES: We realize we're overregulated in this State; there is no question about it. That's why we have the meeting.

MR. HARRIS: Sure.

SENATOR HAINES: We're trying to get as much information as we can. Jack has a bill in -- Senator Ewing has a bill in -- and he wants to come up with something that is going to work and not tie your hands, because too much in the past, we have come up with legislation that works, maybe, for you, but it doesn't work for somebody over here.

MR. HARRIS: Sure.

SENATOR HAINES: That's what it's all about. If we didn't go out in the field and talk to people, we would be very negligent. That's what it's all about.

MR. HARRIS: Certainly, we appreciate the opportunity, those of us on this side of the table, to speak to all of you and have some input on this process.

SENATOR EWING: You'll have more. We're going to send you copies of the rough draft of the bill.

MR. HARRIS: Okay, great. I thank you.

SENATOR EWING: Thank you.

Is there a Ms. Anna Rizzeri here? (no response)

Is there a Ms. Tamara Brown here?

S H A R O N B R O W N: I'm substituting.

SENATOR EWING: Oh, no substitutes. (laughter)

MS. BROWN: She is making settlement on her house today.

SENATOR EWING: That's fine. Your name, and what--

MS. BROWN: I'm Sharon Brown. I'm one of the owners of Divers Academy of the Eastern Seaboard, in Camden. We have been in operation since October of 1977. Our placement rate, since 1977, has been well over 90 percent every year.

SENATOR EWING: Excuse me just a minute. What type of school do you run, and how many students?

MS. BROWN: Commercial deep sea diving.

SENATOR EWING: What?

MS. BROWN: Commercial deep sea diving. These people, primarily a male student body, average age of 25, many of them

with college degrees, go to work in the field of inspecting bridges, working on power plant maintenance, and the offshore oil industry. It's a wide range. They come to our school from all over the country, and foreign students. Our average enrollment per year is about 100. As I said, our placement rate has run over 90 percent every year.

I have a default rate of 7.8 percent this year; 90 students in repayment, seven in default. Of the seven that defaulted, the majority of them are working at union jobs paying approximately \$32 an hour. Why do they default? I don't know. Because they just choose not to pay.

There are a number of people in this world who choose not to pay, and until someone forces them to pay-- And this 180-day period that we're talking about, that triggers that, "Send it back to the guaranty agency." The loans that default all repay. They repay New Jersey Higher Ed because the bank doesn't work with them. They don't have any reason to work with them at the 100-day delinquency point.

The lenders are now required to notify the schools that the student is delinquent. One hundred days, okay? That gives us 80 days to get him to do something. Most of the time, we're successful.

But the thing that can't help this is that when we write to the student, when we call the student and we say, "Look, here is where you are right now. If you're having a problem, let us know, and we'll help you." And we do.

But the ones that, as I said, go into default, eventually repay New Jersey Higher Ed. I just got a listing about two weeks ago that showed, over my whole period -- the whole history since 1981, when we entered the loan programs -- we have had a total of 56 students default -- a total. We have well over 1000 students out there working and being productive citizens. More than half of those are paid in full, and the other half, except for three, are repaying New Jersey Higher Ed.

So this is-- There is something wrong with that as a criteria. I have to reiterate that the State Proprietary Education Review panels -- the SPREs -- probably are going to do a very effective job of looking at the delivery of services to students and the effectiveness of schools. The new proposed legislation, as far as completion and placement rates, makes a lot more sense than default rates.

Any questions?

DR. GAGLIARDI: I'd like to know the tuition?

MS. BROWN: It's \$5625. The average income for a student graduating from our program, in the first year out of school, is \$25,000 to \$35,000.

DR. GAGLIARDI: Thank you.

SENATOR EWING: You do get a very high type of person. I mean, you say most of them are college--

MS. BROWN: No, I didn't say most of them. I said many of them are. Many of them have college degrees now. But we do have a few that are ability-to-benefit -- not very many. I'd say two to three people a year. But they have to take a mandated test which is administered by someone other than ourselves.

SENATOR EWING: Thank you very much.

Is there anybody else here who would like to say a few words. (no response) We'll have a benediction, and then we'll close. (laughter)

(MEETING CONCLUDED)

APPENDIX

GOOD MORNING MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I AM TOM HENRY, DIRECTOR OF THE OFFICE OF SCHOOL-TO-WORK INITIATIVES IN THE DEPARTMENT OF EDUCATION, WE CURRENTLY COORDINATE THE APPROVAL OF 240 PRIVATE PROPRIETARY VOCATIONAL SCHOOL SITES AND 7 CORRESPONDENCE SCHOOLS.

THE PRIVATE VOCATIONAL SCHOOL INDUSTRY PLAYS A MAJOR ROLE IN THE OCCUPATIONAL TRAINING AND RETRAINING OF APPROXIMATELY 27,000 NEW JERSEY CONSUMERS WHO ANNUALLY ENROLL IN THE SCHOOLS.

SINCE 1987, APPROXIMATELY 115 PRIVATE VOCATIONAL SCHOOL SITES UNDER THE APPROVAL AUTHORITY OF THE DEPARTMENT OF EDUCATION CLOSED. ABOUT 1/3 OF THOSE SCHOOLS CLOSED WITH LITTLE OR NO ADVANCE NOTICE. LITERALLY THOUSANDS OF STUDENTS WERE AFFECTED IN THE FOLLOWING WAYS:

- . THE JOB TRAINING FOR WHICH THEY CONTRACTED WAS INCOMPLETE AND THEY MAY WELL HAVE NOT BEEN ABLE TO FIND EMPLOYMENT.

- . THEY DID NOT RECEIVE REFUNDS FOR TUITION PAID. IF THEY USED FEDERAL GUARANTEED STUDENT LOANS TO FINANCE THEIR EDUCATION, AND ABOUT 75% OF THE STUDENTS DID, THEY WERE STILL RESPONSIBLE FOR REPAYMENT OF THE LOANS. FORTUNATELY, THE US DEPARTMENT OF EDUCATION IS IMPLEMENTING A LOAN FORGIVENESS PROGRAM TO ASSIST QUALIFYING STUDENTS.

- . ACADEMIC AND FINANCIAL RECORDS ARE NOT AVAILABLE TO VERIFY ATTENDANCE. THIS IS A MAJOR DISADVANTAGE TO STUDENTS WISHING TO PURSUE FURTHER EDUCATION AND TRAINING.

12

THE PRESENT APPROVAL AND OVERSIGHT SYSTEM EVOLVED OVER A 25 YEAR PERIOD. IT DOES NOT ADEQUATELY ADDRESS THE CONSUMER, ACCOUNTABILITY AND EDUCATIONAL ISSUES OF AN INDUSTRY THAT RECEIVES IN EXCESS OF \$95 MILLION ANNUALLY TO PROVIDE ENTRY LEVEL AND SUPPLEMENTAL OCCUPATIONAL TRAINING TO NEW JERSEY RESIDENTS.

CURRENT LAW AND CODE PROVIDE LITTLE PENALTY TO SCHOOLS THAT DO NOT OPERATE IN THE BEST INTEREST OF STUDENTS. THE MAJOR ENFORCEMENT TOOL IS THE ABILITY TO REVOKE THE APPROVAL OF A SCHOOL TO OPERATE. THAT PENALTY MEANS NOTHING TO SCHOOL OWNERS WHO CLOSE WITHOUT NOTICE THEREBY INFLECTING EDUCATIONAL AND FINANCIAL INJURY ON STUDENTS.

STATE APPROPRIATIONS AND FEES CURRENTLY AVAILABLE ARE NOT SUFFICIENT TO PROVIDE THE RESOURCES NEEDED TO EFFECTIVELY APPROVE AND OVERSEE THE OPERATION OF THE INDUSTRY SO THAT THE STUDENT/CONSUMERS ARE ADEQUATELY SERVED AND PROTECTED. THE UNIT PRIVATE VOCATIONAL SCHOOL IS CURRENTLY STAFFED BY ONE PROFESSIONAL AND ONE SECRETARY.

UNFORTUNATELY THE BAD PERFORMANCE OF SOME INSTITUTIONS HAS CAST A BROAD, BLACK SHADOW OVER ALL PRIVATE VOCATIONAL SCHOOLS. HIGH DEFAULT NOTES ARE A MEASURE OF A SYSTEM THAT REQUIRES VERSION. THE DEPARTMENT BELIEVES S932, WITH TECHNICAL AMENDMENTS, WILL PROVIDE THE NECESSARY SAFEGUARDS TO PROTECT THE PUBLIC AND THE STUDENTS INTERESTS.

2x

THE BILL WAS DEVELOPED AND INTRODUCED AS A RESULT OF RECOMMENDATIONS MADE BY THE NEW JERSEY STATE EMPLOYMENT AND TRAINING COMMISSION. THE RECOMMENDATIONS ARE PART OF A UNIFIED STATE PLAN FOR A COMPREHENSIVE WORKFORCE READINESS AND TRAINING SYSTEM. THE PLAN ADDRESSES THE CRITICAL NEED TO IMPROVE THE WAY NEW JERSEY EDUCATES AND TRAINS ITS WORKFORCE.

THE FUNDAMENTAL ISSUE ADDRESSED IN THE LEGISLATION IS THE NEED FOR THE IDENTIFICATION AND IMPLEMENTATION OF COMMON STANDARDS FOR APPROVAL, MONITORING, EVALUATION AND EDUCATION PROGRAM ACCOUNTABILITY IN THE SCHOOLS. IMPLEMENTATION OF THE STANDARDS WILL HELP ENSURE THE QUALITY, STABILITY AND INTEGRITY OF THE SCHOOLS TO THE BENEFIT OF ITS STUDENTS AND NEW JERSEY EMPLOYERS AND TAXPAYERS.

ENACTMENT OF THE LEGISLATION WILL ACHIEVE A NUMBER OF OBJECTIVES:

- . APPROVAL AND OVERSIGHT OF SIMILAR PRIVATE VOCATIONAL SCHOOLS WILL BE CONSOLIDATED UNDER A SINGLE AGENCY, THE DEPARTMENT OF EDUCATION. CURRENTLY, AT LEAST 5 AGENCIES ARE INVOLVED IN AN UNCOORDINATED APPROVAL AND OVERSIGHT PROCESS.

- . THE EDUCATIONAL AND FINANCIAL INTERESTS OF ENROLLED STUDENTS WILL BE PROTECTED. THIS IS ESPECIALLY CRITICAL IN THOSE INSTANCES WHERE A SCHOOL CEASES OPERATION BEFORE STUDENTS COMPLETE THEIR EDUCATION. A FUND WILL BE IN PLACE TO PROVIDE TUITION REFUNDS TO STUDENTS IF THE SCHOOL CLOSES AND DOES NOT HAVE ADEQUATE FUNDS AVAILABLE.

3x

- . ADEQUATE, DEDICATED FUNDS WILL BE AVAILABLE TO PROVIDE THE RESOURCES NEEDED TO EFFECTIVELY APPROVE THE SCHOOLS AND MONITOR THEIR QUALITY. FUNDS WILL BE PROVIDED THROUGH FEES AND OTHER SOURCES.

- . PROGRAM QUALITY WILL IMPROVE BASED ON THE ATTAINMENT OF MEASURABLE PERFORMANCE STANDARDS AND OUTCOMES.

- . CIVIL PENALTIES WILL BE PROVIDED FOR THOSE SCHOOL OWNERS WHO VIOLATE THE LAW.

THE BILL WILL PERMIT THE COLLECTION AND REPORTING OF RELEVANT CONSUMER INFORMATION SO THAT POTENTIAL STUDENTS MAY MAKE REASONED DECISIONS REGARDING ENROLLMENT IN TRAINING PROGRAMS OFFERED BY THE SCHOOLS.

THANK YOU FOR YOUR INTEREST IN THIS ISSUE. WE APPRECIATE THE WORK OF THE SPONSORS AND THE COMMITTEE. WE HOPE YOU WILL SUPPORT THE BILL AND WE WILL WORK WITH YOU TO ADDRESS ANY ADDITIONAL ISSUES.

TAH/cj:11/3415

4x

DEPARTMENT OF EDUCATION
VOLUME INDICATORS

DIVISION: ACADEMIC PROGRAMS AND STANDARDS

UNIT: PRIVATE VOC. SCH.

MEASURABLE FUNCTION

ANNUAL VOLUME
(UNIT OF MEASURE)

(1) Regulate per N.J.S.A. 18A:69-1 et seq. and N.J.A.C. 6:46-1 et seq.	240 NJ PVS sites
. Annually reapprovals	4 Out-of-State PVS
. Review new school applications	7 Correspondence Schools
. Issue initial PVS approval	45
. Investigate complaints	35
. Governor, Commission, Director referrals	44
. Investigate non-approved PVS	40
. Changes to approvals	29
. PVS staff approval reviews - issued	500 actions
. PVS staff approval reviews - rejected	2,800
. Closed school assistance	200
. Research/respond to court subpoenas & NJSA 47-1A-et seq requests	17 sites
. Respond to transcript requests	14
. Phone calls (transcripts, complaints, referrals to other agencies, school inform occupational info. T/A to PVS school staff)	350
	75/day

TAH/cj:11/3416

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