

**Conference Call with  
Deputy Undersecretary Robert Shireman of the U.S. Department of Education**

**May 29, 2009  
12:30 PM ET**

Massie Ritsch: All right. Good afternoon, folks, thanks for your patience. This is Massie Ritsch, Deputy Assistant Secretary for External Affairs and Outreach at the U.S. Department of Education in Washington.

Thanks for joining us for what has turned out to be quite a popular call this afternoon.

First, I should say the call is being recorded, if that's a problem for you, go ahead and hang up now. We will do our best to post a recording and transcript as it becomes available online. No ETA on that, we're -- unlike the folks in the investment world -- we're not used to the same kind of turnaround, but we're glad so many of you have been able to join us on the line.

We will, if - as time permits, take questions clarifying what Bob Shireman said, at the end. And we intend to communicate in the future on this topic through the Federal Register as we did on Tuesday in press releases. And we also want to make sure you're aware of our website of information for financial aid professionals, which is IFAP, I-F, as in Frank, A-P, as in Peter dot-ed, dot-G-O-V. I also want to let you know some of our friends who cover the industry for the education and financial media are also listening in on the line.

So, with that, I'm going to turn it over to our Deputy Undersecretary, Bob Shireman. Take it, Bob.

Bob Shireman: Thank you very much, Massie, and let me thank you and others for being on the call.

We decided to this call because I was getting calls from analysts. I generally try not to talk to - I generally try to avoid talking to analysts, but it was becoming clear that there was an interest in some explanation of the Federal Register notice that we published the other day. And so, I wanted to make sure that everybody had the same information.

Our overall goal at the Department of Education in post-secondary education is to make sure that students -- potential students -- whether young or old, have access to college, they have the information they need to make good choices, and that they have good quality post-secondary education that serves both them as students and taxpayer as well.

If that's not the case, if there is not quality we want to know about it and if we can, we want to do something about it. Whether that involves a public institutions, a non-profit, a for-profit, a two-year, a four-year, a trade program, whatever type or sector of institution, we want to do all we can to make sure that we good quality and get the degrees and certificates that we need in this country.

I'm going to take a few minutes to describe the Federal Register notice that we published and some of the background behind it, and then we'll be open to any clarifying questions that some of you may have.

We announced in the Federal Register three public hearings in the latter half of June, each of them a day and a half. The first day focused on the beginning of a potential rule-making process, the second half-day, some more open

sessions. I'll describe first the purpose of the second half-day. There we are having two simultaneous sessions.

The first one is seeking input on the communications, information, and processes that we at the Department of Education provide to students, schools, families. And we want input into simplifying the FASFA form, but also well beyond that to our website, college.gov, the pamphlets and publications, and the various things that - information that we put out, you know, we'd like input on. Which ones are useful, how should we - how should they be changed or improved, what kind of communications should we be doing that could be more effective in getting people prepared for, into, and through college.

The second of the sessions on the second day is about college persistence and completion. The questions there is how could the programs that we run be more effective in encouraging students to continue on in their studies once they've started in higher education and complete, and get that degree. We're interested in input whether that's the Title IV programs, you know, Pell Grants, student loans, etc.

We also made grants to developing institutions, institutional support in Title III and Title V of the Higher Education Act, and there are probably other items that - programs where we perhaps could be running them in ways that - where they could be more effective. So, we're looking for ideas, input really of any type there.

On the first day of these three sessions, we are interested in input on regulations that we should consider changing. And these can be - really it's a - it's the public's (unintelligible) - the public -- any of you -- and others in the public to give us any input that you want about how our regulations should be changed, added to, subtracted from, for whatever reason or purpose.

We laid out some examples of the kinds of things that we're interested in input on. Input on whether we should change our regulations, what that might look like, so that we can then decide which items we might consider following up on with actual draft regulations or committees that would be created around particular topics. So, the outcome from this particular stage of public input could be to do something on a topic, to do - or to do nothing on a topic, or, you know, to do something at different time.

So, I'll - I will go through the items, just give you a little bit of sense of what our questions are and where they came from. Several of the items that have actually come up in Inspector General reports in recent years, and so we're on the list -- partly -- because of that. A couple of the items emerged recently in discussions over the new provision in the law that allows for someone to get a second Pell Grant in a - in one year.

And that has raised the question of somebody getting a Pell - you get a second Pell Grant after you have gotten a first Pell Grant. There's a question of satisfactory academic progress, which is the - you can't continue to get federal financial aid if you're not making satisfactory academic progress. The rules about what exactly the standards are for satisfactory academic progress are fairly open and loose. And so, you have the potential for a lot of people getting a second Pell Grant to - and we want input on whether there - whether we should take a closer look at the issue of satisfactory academic progress.

Second issue related to that double Pell is the definition of a credit hour. We have not - there is no -- in regulations -- no definition of what one credit hour is. So, you can imagine that there's some potential for abuse in terms of saying that someone has completed a full-year of credit hours. So, that a

second Pell Grant can come in, which may mean that we should perhaps have a standard for what a credit hour is.

Another item on the list, incentive compensation.

Some Safe Harbors were created a number of years ago, and we now have some experience with those Safe Harbors in actual operation. And the question is whether the way that things are actually operating now is the way it should continue, given the statutory prohibition, on paying incentives directly or indirectly based on enrollments, and so we want input on whether we should consider changes there.

The third bullet on that list is gainful employment in a recognized occupation. Congress rewrote the definition of a proprietary school to include some situations of institutions that are offering Liberal Arts Degrees and of Liberal Arts programs. And we have already addressed that second new part of the definition, but it raised questions about the lack of specificity about what the first part of the definition means; gainful employment in a recognized occupation. So, again, we're interested in public input on whether we should get more specific about what that really means.

State authorization as a component of institutional eligibility. Generally, institutions of higher education and - under the Higher Education Act must be recognized by a - or - but be accredited by an agency recognized by the Secretary of Education. Must be okayed by the Department of Education, mostly around their financial capability and related areas. And third, have to be authorized by a state to provide a secondary - or education beyond secondary school.

And in that third piece -- state authorization -- there are some circumstances where a state's lack of an authorizing body has been interpreted as allowing certain institutions to be considered authorized by a state. And we want input on whether to allow that situation to continue or if not, what should our standard be or what state authorization is.

Verification of information included on student aid applications. There are - when students apply for financial aid, colleges are - a lot of applications are flagged for them to verify certain items that students or their parents had indicated in those applications, and it has been a long time since we have reviewed the - our verification rules. And so, it may well - it may be an area where there's some regulatory relief possible, some administrative relief for colleges, maybe other things that, particularly college financial aid officers, may have suggestions around that, and we want to hear those suggestions for our consideration.

And then, a high school diploma, the Inspector General has brought up some situations when - where it seems that the ability to benefit rules are perhaps being dodged by high school diplomas that are perhaps too easy to get, don't - maybe don't represent a real high school diploma. So, the question is what kinds of standards -- if any -- we should have for what qualifies in that regard.

Those are the items on the - our list. Again, we're looking for input on whether these are items that we should move forward with further consideration of possible regulatory changes. Any suggestions people may have about what those regulatory changes would be if we were to move forward, and we are open to any other items that people might suggest.

Thank you for listening, and we have a few minutes when we can take your clarifying questions on this.

Massie Ritsch: Okay, folks, so we'll open it up for questions. To ask a question, hit star 1 on your phone. We'll take a minute to get folks in the queue, and then we'll come back with you.

Okay, again, star 1 is how you ask questions. You can enter that queue at any time during the Q&A. Operator; can we have the first question, please?

Coordinator: The first question comes from Trace Urdan from Signal Hill.

Trace Urdan: Hey, good afternoon, and thank you, Mr. Shireman for doing this call today. I know we all appreciate it. I heard your comments regarding your feelings that your primary interest was in protecting taxpayers and students, irrespective of the sector, but I was hoping that you might address the question more directly. Do you believe the proprietary school sector provides a useful service that's not otherwise address by not-for-profit or state funded schools? Hello?

Bob Shireman: Yeah, I'm trying to - I think it's - I - so maybe I could ask you to repeat the question again. Do I believe that the...

Trace Urdan: So, I understand that you're focused...

Bob Shireman: Yeah, let me (unintelligible) - I think that there are good schools, very effective schools, and schools that are less effective in every sector, and that sometimes the lines between the sectors are somewhat gray, and you - you know, we're seeing that a lot in the public versus non-profit sector. For example, where states pull their support from their public institutions, so, you know what - at what point does an institution become a non-profit?

So, there's very effective schools and less effective in every sector, you know, in every sector, also four-year, two-year, etc. And so, our focus needs to be on quality, regardless of sector.

Trace Urdan: And then, just as a follow-up, if I may. Do you look at or care about the financial performance of the for-profit schools beyond the financial responsibility provisions that are attached to accreditation? Does it concern you...

Bob Shireman: Yeah...

Trace Urdan: ...how much money they make?

Bob Shireman: ...I mean our main focus is implementing the Federal Student Financial Aid programs and the items that are relevant to that. So, generally we would look for things that are relevant to our financial goal responsibility guidelines, things like that.

You know, it - we accept any information that is provided to us and assess it, and analyze it. And if you - and I, you know, would say that even though there's a lot of financial analysts on this call, there's nothing wrong with you all -- in this process coming up -- providing your own input about the kinds of things that you think are relevant to our responsibilities.

Trace Urdan: All right, thank you very much.

Coordinator: The next question is from Suzanne Stein, Morgan Stanley.

Suzanne Stein: Hi, thank you very much again for doing this call. I'm curious, what kinds of things - you started the call by talking about measuring quality, and I'm just



wondering what kinds of things you're going to do to measure quality. And, you know, take into account, particularly for the for-profits, that the students attending these schools, you know, may not have been at the top of their class, and maybe somewhat disadvantaged. You know, how are you going to take that into account?

Bob Shireman: Our tools are basically enforcing the rules surrounding the programs that we operate. So, most of that has to do with the information that students have, which some of which comes from data reporting by colleges and universities. The kinds of things that are in the - that are required to be available to students, in terms of information, or to be made available to them.

And then, you have accreditation, the state authorization, and then more our financial responsibility guidelines. So, it would tend to rely in either part of that regulatory triad or the information and basic eligibility requirements.

Suzanne Stein: Okay, and just a follow-up, can you may go into a little bit of detail in what the process will be following the hearings and when we can expect to have some clarification on what you may or may not do?

Bob Shireman: Sure. The - what we indicated in the notice is that any teams we decide to develop would probably start meeting in September, which would - which means that some time in maybe late August to mid -- sorry -- late July to mid-August, we would announce topics that we plan to pull together teams on. And those teams then would start meeting around those - about those topics in September, and then would meet - possibly reach consensus around changes in regulations around those topics. And then, there's a - then we would publish draft regulations, another public comment period on those draft regulations, and then final regulations beyond that.

Suzanne Stein: Okay, thanks again, this has been very helpful.

Bob Shireman: Great.

Coordinator: Your next question is from Andrew Fones, UBS. Your line is open. Sir, your line is open.

Andrew Fones: Thanks. Yes, thanks for doing the call. I had a question regarding the - your comments about the relative effectiveness for schools in different categories. And is there any particular metrics that you tend to focus in on when you think about, you know, what represents a good, average, or poor institution within a particular area? Thanks.

Bob Shireman: Not that - there's nothing in particular that comes to mind, and those certainly are the kinds of things that if there are metrics that those of you in the analyst industry use, feel free to suggest them to us. There's also a big element here of consumer information and the market doing its work, and we have a pretty big role to play there in terms of making sure that students have good information.

Andrew Fones: Thanks, and if I could, just a second question. I wondered about Obama's goals to - obviously, to increase a proportion of adults with higher education qualifications during this administration, and how you will, you know, look to push that goal forward, given the lack of funding at state schools and some of the difficulties they're having understanding the stimulus. There's been a lot of money given to the state, but it still appears as though the state system is under a lot of pressure and public - the public schools are having to cut enrollments. Like, how in your mind are you balancing that - the goal of increasing higher education given these funding shortfalls?

Bob Shireman: Yes. Well, certainly the Recovery Act and the State Fiscal Stabilization Fund is intended -- in part -- to not only make sure that K-12 schools can keep operating and do a better job, but also applies to higher education. So, we're hoping to - and know that we've had some impact in terms of reducing the levels of cuts that might exist there.

We also know that we need to make sure that higher education becomes more - post-secondary education more broadly, becomes more effective in getting people through to those degrees and certificates, and so that's a reason for - so that's focus that we have. So, that even given the current number of people who are going on to education beyond high school, getting them to that degree or certificate and help us to aim for that goal.

We also do propose substantial increases in the Pell Grant program, some expansion in the availability of student loans with an expansion of the Perkins Program. A bigger tax credit that is partially refundable and available for more costs, and so are taking a number of steps in terms of making that a real priority in the federal budget.

Massie Ritsch: Folks, we've -- thanks, Andrew for that question-- we're just about to run out of time here, so I'll take one last question. I just want to say that Bob has laid out the calendar; the Federal Register has a calendar. This is how input can be provided and how you can track this process.

Our intent is not to make this a regular conversation or a continuing conversation; we wanted to do this once in response to interest we were getting based on the notice posted Tuesday. Some of you folks have asked to join our list; there really is no list. We were able to assemble a large group of folks for this purpose today, and hope that in the future you'll continue to rely on the Federal Register press releases from the department and the website I

mentioned with information for financial aid professionals. That's IFAP.ed.gov, I-F-A-P.ed.gov.

So, let's take one last question, operator. Operator?

Coordinator: Yes, sir, one moment.

Massie Ritsch: Bear with us folks, we'll find that one lucky last person. Folks, in the press - in the media, you can -- of course, as usual -- contact our press office for questions that you have stemming from this call.

Coordinator: Okay. And the last question is from Brandon Dobell from William Blair. Your line is open.

Brandon Dobell: Thanks for taking my call - I mean, squeezing me in here.

One more of a - maybe a procedural question, should we expect more of these types of rule-making sessions going forward, or is this one of the, you know, the forum under which you expect to address all the issues that you think need to be addressed? Should we assume that in a year there's going to be other issues to go, you know, kind of, sort of this process as well?

Bob Shireman: At this point, this is the only one that we're planning and I'd say we do hope that issues that folks have that they think should be addressed are expressed at these hearings. I suppose it's possible we could get some number of issues that we decide - that we could decide from these hearings that there are - you know, that there's one set of committees to create for September, and then another set, you know, in January or something like that, but at this point, that's not in our plan.

And, you know, something like this can happen at any time, but it is fairly resource intensive, so I know that our - the very hard working staff who work on all of our regulatory operations here, I'd say they hope for a break at some point.

Brandon Dobell: Fair point. And then, final question, you know, with the recent increases in assistance from the government, in terms of both Pell and Stafford, you know if - it kind of conflicts with the idea of making, you know tuition affordable from a 90/10 perspective.

You know, schools can go right past 90/10 if the (unintelligible) 90/10 if their programs are "affordable". You know, how does that - how do you think about managing that balance where affordability might put schools in conflict with, you know, one of those regulations that's designed to maintained quality of that organization?

Bob Shireman: I don't know, but if you've got suggestions, bring them up at the public hearing.

Brandon Dobell: All right, fair enough. Thank you very much.

Massie Ritsch: Great. Thanks. With that, folks, we will wrap it up. Again, thank you all for participating in this one element of our efforts for greater transparency here at the Department of Education.

Again, continue to watch the Federal Register, press releases, websites, we have dedicated to financial aid. We'll do our best to get a replay of this and a transcript; it may not come till next week frankly, but we'll put it up. You all have heard it and I trust you'll share the information with you colleagues.

And with that, I wish you a good weekend. Thanks for joining us today.

Bob Shireman: Thank you, everyone.

Coordinator: This concludes today's conference. You may now disconnect.

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