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REPORT THE CYCLE OF SCANDAL AT FOR-PROFIT COLLEGES

The For-Profit College Story: Scandal, Regulate, Forget, Repeat

JANUARY 24, 2017 — ROBERT SHIREMAN

The performance of for-profit colleges has taken on new significance in the past two decades because of the rapid growth of these institutions. From 2000 to 2010, undergraduate enrollment at for-profit colleges *quadrupled*,[1] with federal grants and loans accounting for more than 90 percent of revenue at many schools.[2] For-profit colleges now account for over a third of all student loan defaults,[3] even though these institutions enroll just slightly more than 1 out of every 10 postsecondary students.[4]

It is now widely acknowledged that many for-profit colleges engaged in unsavory practices to maintain the flow of taxpayer dollars. By marketing to veterans and low-income students eligible for the maximum amount of federal financial aid, owners grew their schools rapidly, while overcharging and under-delivering along the way. In many cases, these schools were less than honest about the value of the degrees they were awarding and the likelihood they would lead to jobs. Some used manipulative sales tactics, hired unqualified faculty, enrolled unprepared students, and hid their misdeeds through forced arbitration clauses, all while leaving students with crushing student loan debts and school executives with bulging bank accounts.

When these abuses were first coming to light, the for-profit college industry denied there was any problem at all, claiming that stock manipulators and trial lawyers were behind the push to reveal what were merely anecdotes.[5] The founder of the University of Phoenix went so far as to finance a liberal ethics group that stoked rumors of a nefarious plot against for-profit colleges.[6]

As the evidence mounted, however, denial was no longer a viable option. Student loan defaults were shown to be growing. Complaints were piling up, as students' stories were being told in newspaper exposés and television documentaries. A prominent booster of for-profit education admitted in November 2010 that access to federal student loans had created a system "rife with sleazy operators."[7] Industry lobbyists, in need of a replacement for the "*we're not-corrupt, they are*" explanation, adopted a new line of defense: the for-profit colleges simplyhad made mistakes.[8]

There's a peculiar thing about these "mistakes," though. The exact same pattern of behavior by owners of for-profit colleges created similar, major damage before. Not once. Not twice. But at least three times: after the first GI Bill in the 1940s and 1950s; when soldiers returned from Vietnam in the 1970s; and with the expansion of federally guaranteed student loans in the 1980s.

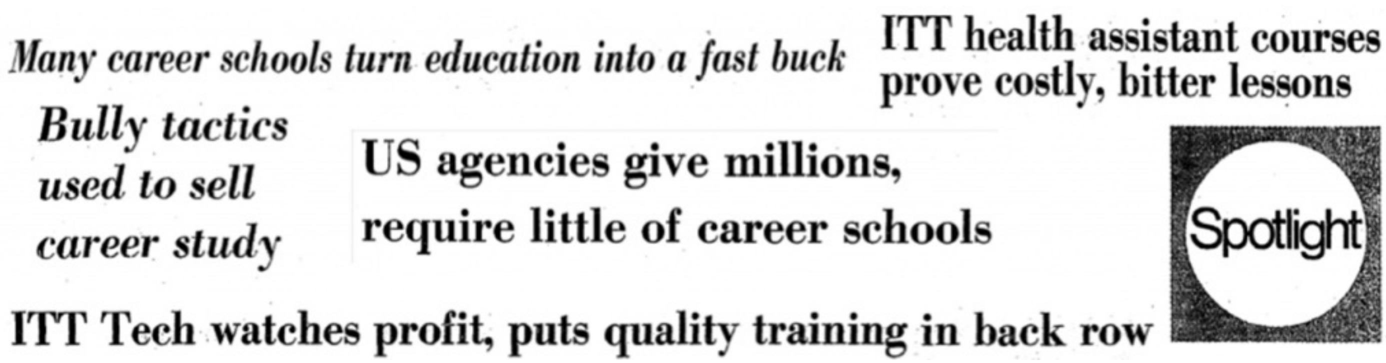
The history of federal college aid is one that involves both expanding opportunity for millions of people but also epidemics of abuse that hurt hundreds of thousands. Every regulation implemented to rein in the abuses has a deep history of what prompted it, why it was drafted the way it was, and, in some cases, how it went wrong.

Today, TCF is launching a series examining that history, starting with an essay about the scandals that plagued the post-

World War II GI Bill and the reform efforts in Congress and the Truman administration. That story is told by David Whitman, a former speechwriter for Secretary of Education Arne Duncan.

Uncanny Recurrence

The similarities between the prior student aid scandals and those of today are uncanny, and they sometimes even involve the same players. Take, for example, ITT Technical Institute, which recently went bankrupt in the wake of numerous allegations of predatory recruiting and lending policies. The company, it turns out, had been around that block before. In 1974, it was the subject of an investigation by *Boston Globe*'s Spotlight Team, which found that ITT had been "using misleading advertising and a highly deceptive sales force . . . it has a demonstrably dismal record of training students for careers in their field of study . . . about seven out of ten students who enroll at the school drop out and only half of those who graduate are placed in jobs."[9]



THE BOSTON GLOBE'S RENOWNED SPOTLIGHT TEAM INVESTIGATED CAREER SCHOOLS IN 1974 AND FOUND MANY OF THE SAME PROBLEMS THAT ARE EVIDENT TODAY.

The private accrediting agency that approved ITT also has a history. The Accrediting Council for Independent Colleges and Schools (ACICS), which President Obama's Department of Education determined last year had failed to adequately oversee its colleges,[10] was accused by President Richard Nixon's education agency of similar shortcomings four decades earlier. In 1973, after thirteen schools approved by the accreditor closed suddenly, the agency reported finding a pattern in which "questionable recruitment and admissions practices have usually resulted in an alarmingly high dropout rates by these institutions prior to their closure." Then, when the schools closed, the corporations "lacked the financial capability to meet required student refund liabilities."[11] Just like today, students and taxpayers back then were left holding the bag.

The appeal of for-profit education providers is that they are arguably more innovative, because their investors insist on it. But the same structural differences that make for-profit colleges seem more entrepreneurial also makes them more hazardous to students and taxpayers. Abuses are not inevitable, but they are empirically real.[12] Owners of for-profit entities get to keep any of the tuition money they don't spend—which means they have a strong drive to charge as much as the federal government will allow, to spend as little on education they can get away with, and to enroll as many students as possible regardless of their qualifications.

In the 1950s, 1970s, and 1980s, lawmakers of both parties had no difficulty recognizing why for-profit colleges, given their financial structure, exhibited the most problematic behavior. Today, however, recognizing that investors running schools can have a negative side has gained a politically incorrect label: it is branded as "ideological."[13] Yet even the people who run for-profit colleges admit that pressures to create shareholder value can push in the wrong direction, causing the companies—as one executive put it—to "exploit the short-term opportunity for profits that's inherent in this model in a way that hurts students, taxpayers and the entire industry."[14]

A few years ago, the lobbyist for the (now defunct) Corinthian Colleges tried to make the case that the pattern of exposed violations at for-profit colleges—such as high default rates, or the problematic use of bounty-paid recruiters—showed that the laws are biased.[15] That is like a Corvette owner who was caught speeding pointing to the pattern of ticket-writing as proof that laws are anti-sports car. There are underlying reasons that for-profit colleges have more aggressive tendencies than most public and nonprofit colleges. It is logical, not ideological, to recognize those differences.

Real Problems, Real People, Real Policies

This series of reports to be published by The Century Foundation over the coming weeks will focus on the for-profit-college scandals of the 1950s, 1970s, and 1980s. But while the series will be trying to learn from the past, the reason for doing so is to prevent a repeat of the recent abuses that students have suffered.

STORIES OF FOR-PROFIT COLLEGE VICTIMS

The below list includes just some of the stories of for-profit college victims that have been highlighted by the media since 2010. To calculate the real damage done by the industry since its establishment, each name should be multiplied by thousands.

MARIET AGUILA | ROBERT BROWN | DANIEL MAULDIN | ARCHIE BROWN & JADE ROYSTER | AILEEN ORTEGA | SARAH FISHER | PATRICIA ANN BOWERS | ALICIA

STEVENS & DENISE ELIASON | JENNIFER KERR | KEITH MELVIN & THOMAS VIDAL-ENGAURRAN & JUSTIN WHITEHEAD | CHRIS PANTZKE | JAMES LONG & TRAVIS DAUN & PATRICK PEAKE & CORPORAL LONG | KEILA RIVAS & SUSAN BOTTOMLEY & STEPHANIE TAVARES | MARIE DELTUFO & WILL PUNTARICH & BRITTNEY PATIENT | TERI PRAAY & JYOTI TANWAR | JOHN BURROWS | MICHAEL ADORNO | AMBER BROWN & CACHA CHERRY & LISA ROBERTS & MARY PARKS & CHRISTINE GILLAN & PAUL DOUGHERTY & JENNIFER WILSON & SINTIA LOPEZ | SHANNON COURSON & ASHLEY FRASCO & JEANIA WELLS & ALLEN JONES & ALYSSA GANT & VICTORIA GARZA | MICHELLE LEGGITT & SANDRA MUIZ | CAROLYN LOWERY & TRACY FOSTER & LAURA MOTZ & NICOLE DAILEY | TRAVIS PIERCE | DAVID PACE | UNDREA ANDERSON & JASMINE PETTIS & JEFFICA BURCHETT | SYDNEY ANDRADE | DENISE PARNELL | TRACY DELOREY | BRIANNA CHRISTOPHERSON | DEVIN WILSON & ASHTON HARRIS | BRITTANY DIXON | SUMMER BOGGS | JOSH JURADO & ZARINA MUSHEYEVA & WILLIAM TOOLEY & DANIELLE MCGUIRE | BERNARD REED | JOHN MOEN & LIBBY GROSSMAN | MATTHEW MORRIS & ANGIE MARTINEZ | MEGAN HAMM | SHARNEE NORWOOD | DAWN THOMPSON | YOLANDA DINGS | TYLER WYNN & JOSHUA DILLESHAW & JOHN HAYMORE | BRYAN BABCOCK | JACOB FRAGA & TAMARA HUYNH | STEPHANIE HALL & KIMBERLY STOUT | PATRICE TYLER | MIKE DIGIACOMO | SARAH SERTIC | YASMINE ISSA & WENDY WOLCOTT & MICHELLE FREEMAN | CLERRA NELSON | ERIC PARMS & WHITNEY GILFORD | TASHA COURTRIGHT & CATRINA BEVERLY & TIFFANY CONTRERAS & AEYLA ADMIRE & NATHAN HOMES | AMY KAPLAN | CHELSI MILLER | MOSES MADDOX | KENNETH DEWAR & EVA GARCIA & HEIDI VELLA | PAUL FAJARDO & RYAN GREGORY | ANNA BERKOWITZ | BOBBY RUFFIN | CARLOS GUTIERREZ & MICHELLE ALLEN | DANIEL VASQUEZ | DILLON ZERWAS | EVAN MIKOWSKI & KAMAI CURRY | JEFF NGUYEN & SHAYLENE MUCKLE & REBECCA PORTER | JIM ERICKSON | KIESHA WHATLEY & GARVIN GITTENS | LINDA BLAKE & LAKEISHA HALL | MALCOLM STRAND | BENSON RAWLINS | ALISIA MOORE | MICHELLE MOFFITT | SHANE SATTERFIELD | LEON WIGGINS | SARA MOORE | DEBBIE TERRELL | ANNEMARIE MORGAN & TIFFANY DEVER | RITA VALLADARES | MYNAND FLORES | ROSCOE MORTON | PETER CARDENAS | MIMI DIAZ & ROLAINE JANVIER | JESSICA KING | MARGIE DONALDSON | NICK GERHART | NELSON FORASTIERI | MIRIAM VILLATORO | TAMMY ROGERS & AMBER MANGOLD | JASON LONGMORE | JEFFREY WEST & ANDREW NEWBURG | CHRISTOPHER WILLIAMS | AMARILIS MADERA & MARIA MACHADO & XIOMARA MADERA & DANUBIA TEJADA | ANA SALAZAR | BRITTANY PROCK | SHALAAN WILLIAMS | JOHN PAOLETTI | NICOLE MCFARLIN | BRENDAN BIERI & ANN KAPLAN | SHAMEE NORWOOD | EDYS ROSABEL | ERNEST BROOKS & AMANDA BENNETT | HOLLIE HARSH & BRIAN FRENCH & CONNIE REEDER | JONATHAN NGOWAKI | MATT FOIST & TRACI JOYCE | NOELLE HICKEY | JEFF SUTHERLAND & ASHLEE SCHMIDT | JULIAN LOCKHART & ROBYN TODD & JOANNA THOMPSON .

For example, in August 2010, ABC's Good Morning America featured the story of Melissa Dalmier, a single mother of three who said the University of Phoenix had misled her in claiming that the program she chose would help her pursue her dream of working as an elementary school teacher. While difficult to prove, her complaint was made more credible when the ABC News producer was similarly misled while posing as a potential recruit. Since the ABC News story first aired, the federal government released data indicating that Melissa Dalmier's experience was hardly uncommon. Among her peers in the University of Phoenix teacher's-aide program who were expected to start repaying their student loans in 2009–10, more than *fifteen hundred of them defaulted on their loans*. That is five times as many as completed the program in the prior two years.[16] Of those who graduated, the median annual earnings were below-poverty-level $15,331.[17]

Even though the companies running for-profit colleges admit to "mistakes," they do not want to be held responsible for the consequences of their actions. What's more, they are asking the Trump Administration and Congress to repeal or weaken the rules and oversight that are designed to prevent a repeat—once more—of the abuses that have created a long list of victims. This series will touch on the variety of approaches federal lawmakers have tried to steer federally financed education at for-profit colleges in a positive direction, including: engaging states in oversight, relying on private accrediting agencies, banning the use of commission-paid salespeople, and using market indicators like the enrollment of students not supported by federal dollars, and the loan burdens of those who are.

By better understanding what happened before, and how it was handled, Congress and the administration can avoid repeating the errors of the past, protect consumers and taxpayers, and ensure that all students have access to quality college options and preparation for careers. Those goals are widely shared by both advocates and critics of for-profit colleges. The question is, how do you get there from here? My hope is that spotlighting the successes and pitfalls of past policies will help suggest constructive paths forward.

Notes

1. "The Condition of Education: Undergraduate Enrollment," National Center for Education Statistics, May 2016, https://nces.ed.gov/programs/coe/indicator_cha.asp.
2. "New Analysis Finds Many For-Profits Skirt Federal Funding Limits," U.S. Department of Education, December 21, 2016, https://www.ed.gov/news/press-releases/new-analysis-finds-many-profits-skirt-federal-funding-limits.
3. Lucinda Shen, "For-Profit Colleges Account for a Third of All Federal Student Loan Defaults," Fortune, September 29, 2016, fortune.com/2016/09/29/student-loan-defaults-2/.
4. Scott A. Ginder, Janice E. Kelly-Reid, Farrah B. Mann, "Postsecondary Institutions and Cost of Attendance in 2015–2016; Degrees and Other Awards Conferred, 2014–15; and 12-Month Enrollment, 2014-15," National Center for Education Statistics, July 16, https://nces.ed.gov/pubs2016/2016112.pdf.
5. Harris Miller, president of the for-profit lobbying association, quoted in "ABC News Investigates For-Profit Education: Recruiters at the University of Phoenix," August 19, 2010, http://abcnews.go.com/TheLaw/profit-education-abc-news-undercover-investigate-recruiters-university/story?id=11411379..
6. Timothy P. Carney, "Money trail connects watchdog group CREW to the for-profit colleges it defended,"*Washington Examiner*, September 2, 2014,http://www.washingtonexaminer.com/money-trail-connects-watchdog-group-crew-to-the-for-profit-colleges-it-defended/article/2552605.
7. "Frederick M. Hess, resident scholar and director of education policy studies at AEI, said that it was 'absolutely a no-brainer that the proprietary higher ed sector is rife with sleazy operators,' pointing to for-profit institutions' ability to accept federal financial aid from students as the root cause of those problems." Jennifer Epstein, "Congressional Chaos?" Inside Higher Ed, November 10, 2010.
8. "We were a sector that grew too much, too fast," industry lobbyist Steve Gunderson explained. "We didn't have the infrastructure to serve it."Josh Mitchell, "For-Profit Colleges Look to Trump for a Pass," *Wall Street Journal*, December 2, 2016.
9. Spotlight Team, "ITT Tech watches profit, puts quality training in back row,"*Boston Globe*, March 26, 1974. The complete Spotlight Team series from the Boston Globe, which ran from March 25–April 1, 1974, was reprinted in the *Congressional Record*, Senate, April 4, 1974, S5235-S5249, https://drive.google.com/file/d/0B7aqIo3eYEUtZWlvNzVzZjZjX1U/view?usp=sharing.
10. Ashlee Kieler, "Education Dept. Revokes Recognition of Troubled Accreditor of For-Profit Colleges,"*Consumerist*, September 23, 2016, https://consumerist.com/2016/09/23/education-dept-revokes-recognition-of-troubled-accreditor-of-for-

profit-colleges/.

11. Eric Wentworth, “Folding Schools Increase Loan Defaults,” *Washington Post*, June 24, 1974, A1, A14, https://drive.google.com/file/d/0B7aqIo3eYEUtOWdFMUZ3eEl2ZXc/view?usp=sharing. At the time what is now ACICS was the Association of Independent Colleges and Schools, having changed its name in 1991.

12. Barry Bozeman and Derrick Anderson, “For-profit universities are not inherently bad,”*Boston Globe*, November 16, 2014, https://www.bostonglobe.com/opinion/2014/11/16/for-profit-universities-are-not-inherently-bad-just-empirically-bad/mTMDbC0xUXSYWAdeBD3rwO/story.html.

13. The “ideology” tag has been repeated, without any explanation for how it even makes sense, by the *Wall Street Journal*, *Washington Post*, Senator John McCain, and Lanny Davis. According to one prominent supporter of for-profit colleges, President Obama “is basically a socialist . . . . For-profit companies are merely part of the capitalistic Evil Empire that Obama despises. Apollo Corporation, Corinthian Colleges, Bridgepoint Education, Kaplan University—these companies are bad mainly because they are in the business of trying to create wealth for private investors.” Richard Vedder, “Is Obama at War With For-Profit Universities?” *The Chronicle of Higher Education*, August 30, 2010, http://www.chronicle.com/blogs/innovations/is-obama-at-war-with-for-profit-universities/26538.

14. Andrew S. Rosen (chairman of Kaplan, Inc.), *Change.edu: Rebooting for the New Talent Economy* (New York: Kaplan Publishing, 2011). Rosen, the chairman of Kaplan, Inc., says that in for-profit education there is a constant hazard that executives will “shortchange the educational offering in order to minimize costs and maximize short-term profits.” Managers at for-profit colleges have both the means and the incentive to “rev up the recruitment engine, reduce investment in educational outcomes,” and deliver “a dramatic return on investment.” He insists, though, that the “vast majority” of for-profit college leaders “work very hard to avoid succumbing to these short-term temptations.”

15. Mark L. Pelesh complained of rules like default rates that have “tended to fall more heavily” on for-profit schools. The ban on bounty-paid recruiters is unfair because for-profit companies are just naturally “more explicit . . . about their sales and marketing efforts.” Mark L. Pelesh, “Markets, Regulation, and Performance in Higher Education.” In *For-Profit Colleges and Universities: Their Markets, Regulation, Performance, and Place in Higher Education*, ed. C. Hentschke, Vicente M. Lechuga, and William G. Tierney (Sterling, VA: Stylus Publishing, 2010), 91–107.

16. Robert Shireman, “Perils in the Provision of Trust Goods,” Center for American Progress, May 2014, 11, https://www.americanprogress.org/wp-content/uploads/2014/05/ConsumerProtection.pdf.

17. U.S. Department of Education, “Gainful Employment Data, 2014,” November 2016. https://studentaid.ed.gov/sa/sites/default/files/GE_SSA_Earnings_2014.xls.

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