Reader

Will For-Profit Colleges Make Us Forget Subprime Mortgages?

By Don Bauder | Published Wednesday, July 7, 2010

"Until recently, I thought that there would never again be an opportunity to be involved with an industry as socially destructive and morally bankrupt as the subprime mortgage industry. I was wrong. The for-profit education industry has proven equal to the task." Thus speaks Steve Eisman, the hedge fund manager who foresaw the subprime mortgage crash and made a bundle betting on it. Eisman was one of the handful of analysts lauded in Michael Lewis's best seller *The Big Short*, which exposes the roots of the recent financial collapse.

One for-profit college that seems to rankle Eisman intensely is Ashford University, the online school that is run by San Diego's Bridgepoint Education. It bought obscure colleges in Iowa and Colorado and got their accreditation along with their meager facilities. Now, 99 percent of its students attend online, and 85 percent of the company's revenue comes from Title IV student grants and loans provided by the federal government under the Higher Education Act.

Early in June, Eisman wrote an op-ed for the *New York Post* that was an abbreviated version of a speech he had given at a conference. The first quote in this column comes from that *Post* article. "These companies are marketing machines masquerading as universities," added Eisman in the article. He quoted a former employee of Bridgepoint saying that the company "conveniently price[s] tuition at the exact amount that a student can qualify for in federal loan money. There is no regard to whether a student really belongs in school; the goal is to enroll as many as possible.... It's a boiler room — selling education to people who really don't want it."

Eisman was one of the speakers at a June 24 hearing on for-profit colleges by Senator Tom Harkin. The senator, who issued a tough report on the industry, said that there has to be new regulation to prevent fraud that bilks taxpayers and harms debt-laden students. The senator's report noted that from 1998 to 2008, the number of students in for-profit colleges zoomed 225 percent while the number in conventional schools rose only 31 percent. Enrollment at the for-profit schools tends to rise when the economy is weak, as now. Students at for-profit colleges represent 10 percent of total post-secondary enrollments but get almost 25 percent of government aid and account for 44 percent of loan defaults and 70 percent of criminal investigations by the Office of Inspector General of the Department of Education. "If nothing is done, we are on the cusp of a new social disaster," says Eisman.

Nine days after Eisman's *Post* article, an investment publication, *The Street Sweeper*, devoted to exposing fraud, launched a similar attack on for-profit colleges. This time, Bridgepoint was in the lead paragraph: author Melissa Davis's first words were "To critics, Bridgepoint Education looks like the poster child for suspected abuses — and proposed reforms — in the controversial for-profit education industry."

She continued, "As a group, the [for-profit] companies basically embrace the same business model. They enroll huge numbers of students who qualify for tuition aid — many of whom will drop out with unmanageable debt loads — and invest more in recruiting than in actual instruction, pocketing sizable profits in the process. Bridgepoint boasts even higher margins than most of its peers, in fact, and actually leads the pack in explosive revenue growth fueled by soaring admissions of students who rely on government-backed loans."

She noted that the Alliance for Economic Stability, a nonpartisan policy group, wrote the Department of Education in May, stating, "We believe that Bridgepoint's abuse of regulations surrounding Title IV funding and of the intent of the [Higher Education Act] is far more egregious than even any of its for-profit counterparts. Even in an industry built on abuses of a government program, Bridgepoint's irregularities stand out."

The Department of Education's Office of Inspector General investigated Ashford's marketing techniques for four years. In late May, the probers said they needed more information. A final report is some time away, but the company could face fines, limits, suspension, or even termination of Ashford's participation in Title IV funding. Termination would bury the company. "Bridgepoint has come under intense government scrutiny for suspected violations of federal laws against paying recruiters for enrolling students," Davis explained.

Michael K. Clifford of Del Mar, who has made a name for himself investing in for-profit colleges, agrees that some for-profit colleges engage in abusive tactics. However, "Eisman took the easy path and painted everyone with a broad brush," according to Clifford, who has written a book coming out in September, *How to Run a College by a Guy Who Never Went to College.*

Eisman's assertions are "based on wildly erroneous assumptions and so-called facts," says Shari Rodriguez, spokesperson for Bridgepoint, which occupies 10 of the 11 stories of the controversial Sunroad Centrum building near Montgomery Field. For example, he ignores the fact that for-profit colleges pay taxes, while nonprofits do not, she says. She says that the assumptions of the Alliance for Economic Stability "demonstrate a clear misunderstanding of Title IV funding and financial-aid facts." Bridgepoint and its cousins will produce college grads that traditional universities can't, she claims.

Stocks of the fast-growing colleges titillated Wall Street for a while, but the Harkin hearings, bad publicity, and a weak overall market took the air out of the balloon. Bridgepoint stock, for example, shot above $27 in late April but closed Friday at $15.02. Analysts are fearful that the

Department of Education will come down hard on Ashford. Apollo Group, parent of University of Phoenix, has suffered a similiar downride, along with the other stocks in the group.

Tracy Cummings is teaching English and creative writing at San Diego State University while pursuing a Ph.D. at the University of California Irvine in critical theory and English literature. She taught at Ashford for six months and burned out. Her fellow faculty members were qualified, but “the classes were all boilerplate classes,” she says. “The class was prefabricated.” She got glowing responses when she gave a lot of attention to students but the same response when she fed them boilerplate.

In a conference call at the end of her training, she and other instructors were told they would have 60 students. “There was shocked silence. People gasped,” she says. The maximum practical number for a writing class is 22. “Personal interaction is completely lacking in the online environment. Sitting next to somebody cannot exist in the online atmosphere.”

“If you don’t sell enough, you are quickly disciplined,” says a former San Diego telemarketer for Bridgepoint. “We tell students that you have to stay in school because if you don’t, you won’t get the financial aid [from the government].”

“The pressures on enrollment advisers to perform is ridiculous,” says one former student recruiter. “The ability [of the potential student] to service debt is not a consideration. The spiel is [that] six months after graduation, you will be able to get a job to pay back student loans.” Of course, the huge buildup of unpaid student loans proves that is not true.

Rodriguez insists that such statements “are simply not true.” Enrollment advisors are given intensive training and disciplined or fired if they use high-pressure techniques.

The Department of Education will pass judgment on that statement. So may the stock market.