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Stealing America's Future
How For-Profit Colleges Scam Taxpayers and Ruin Students' Lives

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Is it possible, in our country today, to defraud and ruin the financial futures of hundreds of thousands of Americans, receive tens of billions of taxpayer dollars each year to do it, and then, once caught, find a way to keep doing it? In the case of America's for-profit college industry, we may soon find out.

In the past five years, Americans have become increasingly aware that many for-profit colleges – the career training schools that bombard TV, websites, and city buses with slick advertisements promising high-paying careers – are a bad deal for students, and that some of them are simply scams. These schools have been caught luring students with false promises about the cost of programs and the value of degrees – and then leaving them unemployed and deep in debt.

Unfortunately, it's possible that a cycle of corruption built into our political system may allow these institutions to keep abusing students for another generation. Government officials have an opportunity right now to stop that cycle and protect students, as well as U.S. taxpayers. But it remains uncertain if they will do so.

There are some responsible, quality for-profit colleges that work to help their students train for careers. But many for-profit colleges are instead systematically wrecking the lives of the students who enroll -- veterans, single mothers, immigrants, and other low-income and middle-class people striving to build better futures.

What's wrong with these for-profit colleges?

- Their prices are too high.

- They admit too many students incapable of succeeding in the programs, and they know it.
- Their program quality is too low, their reputations are too weak, and their placement efforts are woefully inadequate — and as a result far too many of their students can't get the jobs and salaries they expected.

Then how do these predatory for-profit colleges manage to sell their bad programs to students? By using deception and coercion.

But you don't have to believe me.

Many of the major for-profit colleges are now under investigation by federal and state law enforcement precisely for deceiving and abusing students. Many of these matters are still pending, or they've been settled without the company in question admitting guilt. But the facts alleged are overwhelming, and they are consistent with a comprehensive investigation of the industry conducted by U.S. Senator Tom Harkin (D-IA), with numerous media reports, and with accounts from industry insiders -- current and former recruiters, deans, instructors, executives, etc. -- that I hear on an almost-daily basis.

The real cost to a student of attending a for-profit college can actually be nearly double the cost of an Ivy League college. Yet many for-profit college graduates, aiming for careers as medical technicians, diesel mechanics, and software coders, struggle to find jobs beyond the Office Depot positions they could have obtained without a degree. For-profit colleges today have 13 percent of all college students -- but 47 percent of student loan defaults. These schools are driving a national student debt crisis that has reached $1.2 trillion in loans and seven million people in default. It's a situation with disturbing similarities to the nationwide subprime mortgage crisis that triggered the 2008 Wall Street collapse. People with overwhelming student debt can't afford to buy houses, buy cars, get married, take vacations, or do many of the other things that help drive our economy. Some can't even afford to pay rent or feed their families.

One person who clearly understands the problem is President Obama. Speaking at Fort Stewart, Georgia, in April 2012, the President described vividly the coercive and deceptive recruiting tactics that for-profit colleges use. These schools, he told the soldiers, "don't care about you; they care about the cash." One of their recruiters, the President said, "had the nerve to visit a barracks at Camp Lejeune and enroll Marines with brain injuries -- just for the money. These Marines had injuries so severe some of them couldn't recall what courses the recruiter had signed them up for. That's appalling. That's disgraceful. It should never happen in America." He said such schools were "trying to swindle and hoodwink" service members, and he promised to put an end to it.[1] Speaking off the cuff at Binghamton University in New York in August 2013, the President returned to these themes, warning that some for-profit colleges were failing to provide the training and certification that students thought they would get when they enrolled. In the end, he said, the students "can't find a job. They default.... Their credit is ruined, and the for-profit institution is making out like a bandit."[2]

For-profit college abuses don't harm only students. They also are a huge burden on taxpayers. These schools absorb about a quarter of all federal student aid -- some $33 *billion* in taxpayer dollars every year – diverting enormous amounts of aid from better and more affordable programs at nonprofit and public colleges. Many for-profit college companies, including most of the biggest ones, get close to 90 percent of their revenue from taxpayer money. As the President noted at Binghamton, when students default on their federally-backed loans, "the taxpayer ends up holding the bag." The failure of many of the for-profit colleges to train and qualify students for careers also imperils the future of the U.S. economy and our competiveness in the global economy.

Unfortunately, the current federal rules governing for-profit colleges that take taxpayer money are far too weak, and too meekly

[1] http://www.whitehouse.gov/the-press-office/2012/04/27/remarks-president-and-first-lady-fort-stewart-georgia
[2] http://www.whitehouse.gov/the-press-office/2013/08/23/remarks-president-town-hall-binghamton-university

enforced, to prevent egregious misconduct. Indeed, the current system has created a race to the bottom: The more you abuse students, the more money you make. Yet despite President Obama's obvious awareness of the severe and widespread nature of the problem, as of early 2014, his own Administration appeared at risk of failing to act effectively to hold for-profit colleges accountable for such abuses.

Just to be clear, I'm not an outside observer in this dispute. While I have been reporting on the for-profit college industry for several years on the blog Republic Report, with support from non-profit organizations and foundations, I also have been an advocate, working to press government officials for serious investigations and reforms. I also speak regularly with abused students and aggrieved whistleblowers, and this has only increased my resolve that something be done to fix the problem.[3]

To understand why action is needed, consider how for-profit colleges lured, deceived, and crushed the financial future of one American veteran.

A veteran's story

After a three-year stint in the United States Army, Mike DiGiacomo, 23 years old, was back home, just south of Boston. When he visited the admissions office at Gibbs College that day, he hoped he was taking the first step toward a well-paying career as an animator for video games. Instead, Mike was about to be deceived, big time. And as a result of that deception, he would soon be plunged into overwhelming debt.

The scam artists who would steal Mike's future were not some fly-by-night grifters. Instead, they were two large Wall Street corporations. In fact, they were each businesses that receive hundreds of millions a year in

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[3] http://www.republicreport.org/; also: http://www.huffingtonpost.com/davidhalperin/ My reporting on higher education issues is supported by grants from the Ford Foundation, The Institute for College Access & Success, the Center for Public Interest Law at the University of San Diego, and one principled individual with no financial stake in these issues.

federal taxpayer money, businesses whose industry is endorsed and represented by the most expensive lawyers and lobbyists, former members of Congress and former top White House officials – Trent Lott, Colin Powell, Richard Gephardt, and many others. Mike DiGiacomo's financial future was ruined by two of the nation's biggest for-profit college companies, with dull, interchangeable names -- Career Education Corporation and Education Management Corporation.

Mike had attended vocational high school, and then enlisted in the Army. He served from 1999 to 2002 as a supply and logistics specialist with an airborne infantry unit in Alaska. His aircraft was at the ready on 9-11. He left the service before the war in Iraq. He returned home and joined the Massachusetts National Guard.

Mike loved video games, and he was excited to learn that a game he liked was made by Turbine, Inc., a company headquartered nearby. Hoping to join that industry, Mike started looking at college opportunities. He thought of applying to the Massachusetts College of Art and Design, a state school, but he missed the deadline. He enrolled at Massasoit Community College, but he had to borrow a car to get there, and that proved a challenge, and he dropped out.

Mike lived with his mother, who was disabled and spent much of her time watching TV. She kept seeing an ad for Gibbs, and she suggested that Mike check it out.

Mike didn't know much about picking a college, or that Gibbs was a for-profit college, or that there were differences between state, non-profit, and for-profit colleges. No one in his family had ever attended college. The University of Phoenix, the nation's biggest for-profit college, had a presence at his Army post in Alaska, and Mike had thought, why is a school from Phoenix here?

"When you leave the Army, they give you a life class – teaching you how to buy a car and other things," he told me. "There was nothing about education."

But Gibbs, which was owned by Career Education Corp., seemed to make things easy. When he called, and mentioned he was a veteran with access to GI Bill funding, they told him to come in right away. The Gibbs recruiter told him that the school was placing graduates in jobs at Turbine and that financing an education there was manageable – government grants would cover some of the costs, and after Mike graduated he would have government student loans amounting to about $130 a month.

The Gibbs recruiter hadn't made clear the whole story. When Mike signed up, in addition to low interest government-guaranteed loans, Gibbs committed him to take on what are called private loans – loans from the bank, at a much higher interest rate. His monthly payments upon graduation were going to be much, much more than $130 a month. In addition, private loans, unlike most federal loans, can come with high initial origination fees, far less flexibility for deferred payment, and no loan forgiveness for choosing a lower-paying public service career.

But Mike didn't understand any of that at the time. So he signed up. On top of his tuition, Gibbs sold Mike his class books, an art kit, and an Apple computer directly. He started taking classes, but after a while an instructor told him that he had been enrolled in the wrong classes – he was on a track for a graphic design degree, not the animation degree he wanted. Mike also noticed that some of the books Gibbs sold him, at prices around $50, never got used in classes.

The courses weren't inspiring. Mike missed some sessions and fell behind. He left with his National Guard unit for New Orleans, to assist with Katrina relief. When he returned, he was placed in a print art portfolio class, and he wondered why, if he was studying animation, he wasn't making a demo video instead. It didn't feel right.

Gibbs also placed Mike in an internship. He had been told it would be a paid assignment with a local TV studio, but instead he was assigned, unpaid, to a wedding photographer. The guy had Mike doing his laundry, while he went off mountain biking with his girlfriend. Mike complained, but Gibbs did nothing.

Graduation day rolled around, and Mike's two-year associate's degree was somehow not in animation but in graphic design. By now he was so frustrated that he skipped graduation and spent the day at his job at Shaw's supermarket, mopping the floors.

He asked the school to change his degree to animation, but they wouldn't. He asked them to help him look for a job. "I tried a couple times," he says. "They never did." Except they set him up with an opportunity to apply for a job at Staples, a position that did not require his degree. Staples never gave him an interview. He applied to Turbine, but they never called him back.

So Mike found himself in fall 2005 unemployed and still living with his mother. He got his first student loan bill, and it was for $130, as Gibbs promised. But then another monthly student loan bill arrived, and this one was for more than $800. It was the private loan.

Alarmed, Mike decided he better get his career back on track by earning a bachelors degree. Some friends mentioned to him the New England Institute of Art. "That sounded like a real school," he said.

But the New England Institute of Art is, in fact, another for-profit college, this one part of the Art Institutes chain owned by Education Management Corporation (EDMC), which, in turn, is 41 percent owned by the giant Wall Street firm Goldman Sachs.[4]

When Mike visited the Art Institute building, the EDMC recruiters put on a high-pressure show. They told him that the school had job leads into Turbine, Pixar, and others. They told him the school was selective, hard to get it, that it normally required a deep portfolio of work samples. They "made me feel I wasn't good enough," Mike recalls. "They challenged my pride." Mike wanted to show them he could do it. He signed up.

In fact, as Mike soon discovered, the school was open enrollment – they took everyone. "Anybody with a pulse," says Mike. There were people in his animation program who "couldn't even draw."

[4] http://www.nytimes.com/2011/08/09/education/09forprofit.html

And the quality of classes was subpar. One course was, in Mike's view, "basically an adjunct [professor] up front of the class talking about his DVD collection." He was placed in a math class that he considered too difficult, but when he tried to drop it, school officials told him to stick with it; they would give him extra help. But they never did, and he ended up paying for a class that he finally dropped. He also took a course, where, he says, they watched the film "One Flew Over the Cuckoo's Nest" multiple times in its entirety. "Most expensive movie I've ever seen," Mike told me.

It became clear, in fact, that the school was at the high end in terms of cost. A frustrated professor told Mike's class, "I hope you realize you're paying as much to go here as one would to go to Harvard. I hope you're getting your money's worth."

The instructor didn't know the half of it. New England Institute of Art's list price one-year tuition, $18,552, is actually much less than Harvard's $37,576. But Harvard provides much more of its own financial aid, essentially price discounts, to many of its students. So, in fact, earning a four-year degree from the New England Institute of Art, including living expenses, costs the average student on financial aid about $132,400 out of pocket, above the grant aid that the school receives for the student from the federal government. That's called the school's "net price." The net price of a four-year degree from Harvard for the average student on financial aid is about $73,100. The net price for a four-year degree at the state school Massachusetts College of Art and Design is $66,404. At Massasoit Community College, for a two-year degree, it's $14,132. So the for-profit Art Institute would end up being by far the most expensive option for a student like Mike – nearly twice as expensive as Harvard.

And money, not learning, seemed to be the name of the game for the Art Institute and its owner, EDMC. "They got their money and they didn't care," Mike says. When he signed up, EDMC explained to him that one of his loans was from Sallie Mae, "our preferred federal lender." Although Sallie Mae was indeed then in the business of issuing federal-guaranteed low-interest loans, it also issued the more expensive private loans, and this, in fact, was what EDMC gave Mike. But to Mike, the federal and private loan notes looked the same -- with the same Sallie Mae logo.

Soon after Mike enrolled, a financial aid staffer pulled him out of class and told him he had to sign up for an additional private loan right away, or else he couldn't return. So Mike signed. A Sallie Mae rep was on the speakerphone as this process unfolded.

Thinking that he better start looking ahead to job prospects, Mike began visiting the school's career services office. He found that many of the school's graduates ended up working in retail, and that many of the school's job listings were simply copied from craigslist.

Mike finally dropped out when a financial aid official told him he needed a co-signer for an additional loan. Mike didn't have anyone to co-sign.

Mike started to believe he had been deceived and abused by both Gibbs and the Art Institute. All those schools wanted, he concluded, was "bodies in the classes."

But Mike soon learned that he couldn't sue. When he enrolled, the schools had required him to sign agreements that any dispute would have to go to an arbitrator, not a court; arbitrators, private referees of legal disputes, are famous for usually siding with the companies that insist on arbitration – and that pay most of their fees. Mike had no idea he had signed his legal rights away.

He filed reports with the Massachusetts attorney general. The state set him up with a mediation process, but it did not resolve his complaints.

His for-profit college course work did not get Mike a career in animation, or anywhere close. He did a series of short-term and temp jobs – at Target and elsewhere. But he wasn't earning nearly enough to pay back his loans. Because after he dropped out, Mike learned "the true damage" of his experience: Between Gibbs and the Art Institute, he now owed at least $83,000 in student loan debt, perhaps as much as $95,000. "I've never been able to figure out the exact amount," he says.

Many of his friends who did finish the Art Institute owed well over $100,000 in loans. Yet they, too, failed to find the jobs they wanted in animation. Instead, they mostly got retail or other low-paying jobs they could have gotten without their degrees.

Mike defaulted on his loans. Collection agencies went after him. His wages were garnished. "Garnishments don't take into account need – things you need to live on, like food," he says. The pressure of overwhelming debt "makes you feel like scum." Mike's military service had earned him a veterans housing loan, but, he says,
"I'll never be able to use it, because my credit's ruined."

Mike has held a series of low-paying jobs since – Kinko's, a company mailroom. He'd like to turn his life around, with his wife and a baby. But, he says, with so much debt and so little income, "my financial future is ruined." His dream, he says, is bankruptcy. But unlike most consumer loans, including mortgage loans, student loans by law are extremely difficult to discharge in bankruptcy. They stay with you forever. Lobbyists for the student loan industry had ensured that, and they stay vigilant in Washington to keep it that way.

Mike recently wrote to members of a congressional committee about his experience with Career Education and EDMC, "Their recruiters lied. Their loan officers lied."

Of the private loans the schools instructed him to take, Mike says, "They knew these loans would go bad," that many students will default, never pay them back. But these companies need students to take out these private loans, because federal law prohibits for-profit colleges from obtaining more than 90 percent of their revenue from grants and loans provided by the U.S. Department of Education. The principle behind this "90/10 rule" is that if a school cannot convince students, employers, and private scholarship funds to cover even 10 percent of student costs, then the school must not be providing valuable services. But predatory for-profit colleges can't be bothered to strive to earn outside revenue through quality programs, so they simply raise their prices to be higher than the federal aid available, and make students pay the rest through private loans.

Another method that for-profit colleges appear to use to comply with the 90/10 rule is to combine campuses for reporting purposes. EDMC designated a Vancouver, Canada, college it owns as a satellite campus of one of its U.S. colleges located 1,500 miles away in Phoenix -- 90% of the Vancouver students are Canadian and thus ineligible for U.S. student aid. The combined Vancouver/ Phoenix campus thus had a much better chance to meet the 90/10 requirement.[5]

Finally, for-profit colleges need to sign up as many veterans as they can, because under federal law, Department of Defense and VA student grants, like the ones Mike received, don't count toward this 90 percent aid limit, either. As a result, wrote Holly Petraeus, who directs service member affairs at the federal Consumer Financial Protection Bureau, some for-profit colleges "see service members as nothing more than dollar signs in uniform."[6]

The persistent recruiting pays off: The top seven recipients of federal G.I. bill education aid are all for-profit colleges -- in order of cash taken in, the University of Phoenix, EDMC, ITT Tech, DeVry, Career Education Corp., Strayer, and Corinthian, with Kaplan at number 9.[7] The University of Phoenix and others have outposts on or adjacent to military bases, like the one where Mike served, and their recruiters are an aggressive presence in the lives of our active duty troops. Yet the results for many service members and vets are often disastrous.

The respected organization Iraq and Afghanistan Veterans of America said in August 2013, "Using high-pressure sales tactics and false promises, these institutions lure veterans into enrolling into expensive programs, drain their Post-9/11 GI Bill education benefits, and sign up for tens of thousands of dollars in loans. The for-profits take in the money but

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[5] http://www.huffingtonpost.com/davidhalperin/did-for-profit-college-ed_b_2930603.html
[6] http://www.nytimes.com/2011/09/22/opinion/for-profit-colleges-vulnerable-gis.html?_r=0
[7] http://www.harkin.senate.gov/documents/pdf/4ecbffe07af8e.pdf

leave the students with a substandard education, heavy student loan debt, non-transferable credits, worthless degrees or no degrees at all."[8]

In October 2013, the Federal Trade Commission (FTC) warned veterans that some for-profit colleges "manipulate the data or lie about how well their graduates fare."[9] The FTC said it was "advising servicemembers, veterans, and their families that some for-profit schools may be more interested in gaining access to their post 9/11 GI Bill benefits than helping them fulfill their education goals... Some for-profit schools may stretch the truth to encourage enrollment, either by exerting pressure on servicemembers to sign up for unnecessary courses or to take out loans that might be a challenge to pay off."[10]

"It's the perfect scam," Mike DiGiacomo said in his letter to Congress. "I was pressured and given so many documents to sign that it was hard to tell what was what or even understand it.... By the time the student is aware of what is happening, they're deeply locked in balances they can never afford and their legal right to sue the schools is either expired or taken away with arbitration agreements that the students were hurried through in high pressure 'interviews.'"

"These aren't colleges," Mike says. "They're debt factories. They're slumlords of the college world."

Mike knows all this now. He is bright, articulate, and determined. He's good at explaining what happened to him, and, like some other former students, he's committed to warning others about the perils of for-profit colleges, and demanding that government hold these institutions accountable. But what he can't do is escape his own personal financial hell. And neither can hundreds of thousands of other students across America, many of whom just don't know what hit them. They often blame themselves for what for-profit colleges did to them. They're frequently

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[8] http://iava.org/blog/student-veterans-misled-profit-higher-education-companies-awarded-grants-reduce-debt
[9] http://www.consumer.ftc.gov/articles/0395-choosing-college
[10] http://www.ftc.gov/news-events/press-releases/2013/10/ftc-poses-eight-questions-ask-when-choosing-college-after

ashamed. They never realize that these schools are sophisticated, scripted scams, rigged to coerce and mislead students into enrolling, deposit their financial aid checks, and blame the student when the credits and degrees prove to be worthless.

I have spoken with or read written complaints from hundreds of for-profit college students from across the nation, of all different ages and backgrounds. Some went to EDMC or Career Education Corporation schools, while others attended colleges and universities run by the University of Phoenix, DeVry, Kaplan, Corinthian, ITT Tech, Bridgepoint, or other companies. Once they expressed any kind of interest -- online, in person, or on the phone – in getting a degree, they were heavily recruited by for-profit colleges, sometimes receiving five or more phone calls in a single day. The recruiting pitches were coercive, preying on students' fears, and deceptive, with the costs of a degree substantially understated, and the prospects for a well-paying job dramatically overstated. Once the students were hooked, the schools pushed private student loans, without explaining that these loans are far more expensive than federal loans.

Many students were misled by admissions representatives into believing that their for-profit college credits would transfer to a public or non-profit college, but usually that was not the case. For-profit colleges also promised these students that they would get help with job placement after graduation, but often they gave no real assistance at all. And as President Obama noted in his Binghamton remarks, for-profit colleges sometimes mislead students into believing they are earning the certificate they need for a well-paying position, when in fact their programs do not provide the right credentials at all. These students are often left $20,000, $50,000, $100,000, $130,000, or more in debt, with no improvement in their career prospects. A remarkable number of the written student complaints I have reviewed conclude with an identical phrase: "Please help."

The for-profit colleges are not the only ones responsible for this state of affairs. The flipside of their relentless, deceptive, and coercive pursuit of prospective students is that they are, for these students, often the only people who seem to care. For a broke single mom or anguished returning veteran, for-profit college recruiters are people listening to them, offering them a chance.

The local community college, facing year after year of tight budgets -- in part because so much of today's student aid goes to for-profit colleges -- is often in the business of turning students away, not welcoming them in. There just isn't enough room, even for the students who seek out their programs. They have few marketing and recruiting efforts. There are far too few evening classes to meet the meets of working adults. Moreover, community colleges frequently come up short in offering the kind of program that many of these students are seeking – not Shakespeare, but hands-on training to be a nurse's aid or electrician. The whole system – high schools, public colleges, private industry – now fails to offer enough students, especially low-income students, a path to training for such careers. So the for-profit colleges have stepped into the breach. That would be just fine, if they actually offered quality training at affordable prices. But many of the for-profit colleges, in the end, deliver the opposite – weak programs, astronomical prices. And that's how they destroy their own students' lives.

How for-profit colleges harm students and taxpayers

This is a story of students being systematically ripped off, and their futures being stolen, by companies in an industry that is almost entirely a creature of federal policy. It is also the tale of how this destructive industry has used its riches, most of which come from taxpayer money, to hire the Washington establishment -- top lobbyists, public relations consultants, and lawyers from both political parties, including close associates of President Obama – to block reforms and avoid accountability.

This is the story of how Washington created a monster, a monster so big that it can still work its will on the political system even after facts revealed through investigations have so heavily discredited it.

For most of the 20th century, for-profit colleges were a small sector, limited mostly to local trade and secretarial schools, in large measure because government was investing significantly in public education, including public colleges and vocational training in high schools, and industry was more invested in training workers on the job for lifelong careers. But in 1972 Congress passed a new version of the Higher Education Act that significantly increased federal aid for students attending for-profit colleges. As more employers began requiring post-high school degrees, and limited their on-the-job training, and as funding for public college education nevertheless declined, for-profit colleges took advantage of the gap, and begin to steadily, and then, by the 1990's, to rapidly expand.

By the time George W. Bush became president, the for-profit college industry was making big money, and these companies saw an opportunity to use lobbying to increase their wealth. The industry aggressively pressed Washington to eliminate any kind of accountability for schools receiving federal dollars. In 2002, the Bush Administration gutted enforcement of rules to prevent abusive recruiting practices. In 2006, Congress, ratifying the wishes of for-profit college lobbyists and their allies in the Administration, allowed colleges that provide most their instruction online to qualify for federal student aid. A key architect of these changes was Sally Stroup, Bush's Assistant Secretary of Education. She is now one of the top lobbyists for the for-profit colleges trade association, the Association of Private Sector Colleges and Universities, or APSCU.

These changes under the Bush Administration opened the floodgates. In recent years, as noted, for-profit colleges have received as much as $33 billion in a single year from federal financial aid, with the biggest schools getting an average of 86 percent of their revenues from taxpayer dollars.[11] The largest for-profit college, the University of Phoenix, took in more than $5 billion in federal money; federal cash has accounted for some 88 percent of its revenue.[12]

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[11] http://www.harkin.senate.gov/help/forprofitcolleges.cfm

[12] http://www.huffingtonpost.com/2012/09/27/for-profit-colleges-lose-federal-aid-90/10_n_1920190.html ; http://www.bloomberg.com/news/2010-12-09/for-profit-colleges-scam-military-for-521-million-senate-committee-says.html

Their dependence on taxpayer dollars motivates for-profit colleges to devote a significant chunk of their earnings, in turn, to lobbying and providing campaign contributions to members of Congress, in order to keep that money flowing.

Some for-profit college programs, even some programs within EDMC's Art Institutes chain that Mike DiGiacomo attended, do a good job at training students and producing success stories. Some for-profit colleges even do that at a reasonable price. There are many fine instructors and students in this sector. But a large number of for-profit colleges have engaged in deceptive recruiting of people struggling to train for a decent-paying career. These deceptions, and false reporting to government authorities, have masked what such schools actually offer: high-priced, low quality programs that leave students with worthless credits, without good jobs, buried in student loan debt.

In August 2013, there was heavy media coverage of a lawsuit brought by New York state Attorney General Eric Schneiderman accusing Donald Trump's unlicensed Trump University of "persistent fraudulent, illegal and deceptive conduct." The suit demanded that Trump pay back at least $40 million to the 5,000 people who were enticed into paying $10,000 to $35,000 for real estate investment courses "that did not deliver on their promises." Trump University's sad broken promises included telling some students they would get a photo-op with the Donald, when all they got was a picture with a cardboard cutout. The biggest fraud was convincing enrollees that the Trump-owned for-profit "university" would get them on the path to a successful career, which apparently didn't happen for many of them.

But what is most significant about the Trump dust-up is that the kind of conduct alleged there has been playing out for decades all across America at a wide range of for-profit colleges. Indeed, victims of these other schools are often left much worse off than the students at Trump University. Most start poorer, and many graduate or drop out owing much more, than the Trump students. And major for-profit college programs, in contrast to Trump University, are eligible for federal and state financial aid, meaning taxpayers are left paying much of the bill.

For-profit colleges' recruitment efforts are often misleading, coercive, and relentless. TV and Internet ads for career colleges, promising an easy path to a better future, barrage their audiences. The University of Phoenix has spent as much as $600 million a year on advertising; it has regularly been Google's largest advertiser, spending $200,000 a day.[13]

For-profit colleges also spend lavishly to buy "leads" or "pieces of business," also known as prospective students, from the shady world of online lead generators, who use deception and confusion as tricks of the trade. In 2012, Senators Dick Durbin (D-IL), Tom Harkin (D-IA), Barbara Boxer (D-CA), and Frank Lautenberg (D-NJ) wrote to the Federal Trade Commission, asking it to investigating these lead generators. "Lead generators have become a key part of the aggressive recruiting strategy for many for-profit colleges," they wrote, arguing that for-profit colleges work with lead generators to "deceive consumers to obtain personal information by misrepresenting their affiliation with for-profit colleges, as well as concealing how and by whom their information will be used."[14]

In 2013, I noticed that a user had posted on the popular website Buzzfeed an infographic that sharply criticized for-profit colleges -- as a sector run by "fat cats"; a sector that spends most of its money on executive salaries, profits, and marketing, and very little on students; a sector that leaves a high percentage of students deep in debt. The infographic was a pretty clear indictment of for-profit colleges.

The Internet loves infographics. So websites seeking clicks are always looking to run infographics, and marketers are always seeking to supply websites with infographics -- infographics that steer people to their products. There was plenty of evidence that lead generators hired by for-profit college industry heavily used infographics to steer people to their

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[13] http://mashable.com/2012/10/31/googles-biggest-advertisers/

[14] http://www.durbin.senate.gov/public/index.cfm/files/serve?File_id=42e30256-445b-4def-816e-bda738025b8c

sites.[15] But I wondered who had made this powerful illustration of for-profit college abuses.

The infographic said it was "Presented by CollegeDegreeSearch.net." But when you clicked on CollegeDegreeSearch.net, and expressed an interest in studying a wide range of subjects, from information technology to medical assisting, the site steered you to ... yes, for-profit colleges: Kaplan, Cappella, DeVry, etc. Even though the infographic that brought you to the site just explained that such schools are a very bad deal.

I wrote an article asking what was going on. I suggested that perhaps CollegeDegreeSearch.net was using this infographic because it knew that its provocative, progressive message might induce sites like Buzzfeed to run it, and that the tough, honest tone might also induce prospective students to believe that CollegeDegreeSearch.net is their fair and honest friend, and that they could trust its recommendations about what college to attend, even when it recommended precisely the kind of schools that its infographic condemned.

As a result of my article, an operator of CollegeDegreeSearch.net surfaced, and he invited me to chat with him online. We had a long exchange, but he never did explain to me what he was up to.

In 2012, state attorneys general reached an agreement that required lead generator QuinStreet to give up its GIBill.com website, whose official-seeming name and appearance tricked veterans into thinking it was an official government site and then recommended that they sign up for for-profit colleges, without letting them know that public and non-profit colleges often had better programs at fairer prices. [16]

Sources inside this lead generation machine tell me that the industry uses sophisticated tracking that allows it to know just who has

[15] http://www.salon.com/2013/03/08/dont_share_that_infographic_spam/
[16] http://migration.kentucky.gov/newsroom/ag/quinstreetavc.htm

been encountered online. Their favorite target: single women of color, with children under six years old.

If, during one of these online encounters, you express interest in learning more about a program, recruiters from the for-profit colleges themselves will swing into action, and they will hound you without mercy. Once they get you on the phone or in person, the recruiters sometimes prey on students' shame and insecurities. A document obtained by Senate investigators from ITT Tech instructed recruiters to "poke the pain a bit and remind them who else is depending on them and their commitment to a better future." It included a "pain funnel" to guide recruiters in manipulating prospective students.[17] Similar training manuals showed up in the files of several other for-profit colleges.

A 2010 undercover investigation by the federal Government Accountability Office found that all 15 for-profit colleges tested "made deceptive or otherwise questionable statements" to GAO undercover applicants. Some schools encouraged students to falsify their financial aid forms, such as concealing $250,000 in savings, in order to increase their federal aid. Recruiters also exaggerated the salaries that graduates could earn and gave misleading information about program costs and graduation rates. One fictitious student created online by GAO received more than 180 phone calls in a month, at all hours of the day.[18]

Former for-profit college staffers have come forward to discuss a boiler room culture where recruiters were driven to put "asses in classes" and cash student financial aid checks regardless of whether a student would actually benefit from the program.[19]

According to a comprehensive report on the for-profit college industry produced by Senator Tom Harkin's Health Education Labor and Pensions (HELP) Committee, 30 of the industry's biggest companies in 2010 spent $4.2 billion on marketing and recruiting – an amount equal to

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[17] http://www.huffingtonpost.com/2011/02/08/for-profit-college-recruiters-documents_n_820337.html

[18] http://www.gao.gov/products/GAO-10-948T

[19] http://www.youtube.com/watch?v=WaNBNFwavwY

22.7 percent of all their revenue. The publicly traded companies examined had an average profit margin of 19.7 percent. They paid an average of $7.3 million to their chief executive officers.[20]

One particularly cynical operation, Bridgepoint Education, spent in a recent year more than $2700 per student on recruiting and marketing and only $700 per student on instruction. Industry leader the University of Phoenix wasn't much better -- $2225 per student on marketing and $892 on instruction.[21]

When the FBI raided Jacksonville's FastTrain College, one student told a reporter that the school billed her $32,000 for one year, including $3,072 for room and board, even though FastTrain does not offer on-campus housing.[22] A former employee claimed in a web posting that FastTrain used "beautiful girls who go out and solicit men … and then bring them in their cars…. Most of them have had a criminal record or are going to jail soon etc but they still enroll them. Some of them don't even have a high school diploma but Admissions tells them to lie and say that they do…."[23]

In 2011, Rashidah Smallwood, a former financial aid administrator for ITT Tech in Desoto, Texas, came to Washington to give her account at a press conference held by the organization I was running then, Campus Progress. She said her boss at ITT was directing her to tell prospective students to sign fraudulent letters "stating that they were either homeless or had no idea where their parents were, just so that the school could do the FAFSA [financial aid form] as an independent student, so that the school could receive the maximum amount" of federal grants and loans. Smallwood concluded that ITT was "systematically committing fraud

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[20] http://www.harkin.senate.gov/help/forprofitcolleges.cfm

[21] http://www.harkin.senate.gov/documents/pdf/4d7e2cdf57908.pdf ; http://www.harkin.senate.gov/documents/pdf/4d7e2cdf57908.pdf

[22] http://www.huffingtonpost.com/davidhalperin/alcee-hastings-fasttrain-college_b_1524429.html

[23] http://www.ripoffreport.com/r/FastTrain-College/Pembroke-Pines-Florida-33027/FastTrain-College-FastTrain-II-Corporation-Wrongful-Termination-Allowance-of-Sexual-Harr-838876

while students and the federal government bear the burden." When Smallwood's supervisor told her to alter a financial aid form to conceal the facts, Smallwood filed a complaint with ITT management. ITT subsequently fired her.[24]

Rashidah Smallwood was onto something. In 2013, the Securities and Exchange Commission issued a subpoena to ITT Tech seeking information regarding its private student lending programs. In February 2014, the Consumer Financial Protection Bureau, the new federal agency launched by Elizabeth Warren for the Obama Administration in the wake of the Wall Street scandals, sued ITT for abusive practices in such lending. (ITT insisted that it had violated no laws.) And in January 2014, ITT disclosed that it has received subpoenas from the attorneys general of thirteen states seeking information on the company's "marketing and advertising, recruitment, financial aid, academic advising, career services, admissions, programs, licensure exam pass rates, accreditation, student retention, graduation rates and job placement rates, as well as many other aspects of the Company's business." [25]

Contrary to the soothing words of high-priced for-profit college lobbyists, irresponsible predatory behavior is not confined to a few bad actors but instead is widespread across the industry, including those companies that have been controlled by establishment pillars like Goldman Sachs (EDMC), the Washington Post Company (Kaplan), and University of Phoenix founder John Sperling, a highly influential donor to the Democratic Party and progressive policy organizations.

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[24] http://genprogress.org/about/press/2011/02/17/19004/testimony-of-rashidah-smallwood-former-forprofit-financial-aid-admini/
[25] http://www.bloomberg.com/news/2013-02-25/itt-educational-falls-after-sec-asks-for-loan-documents.html; https://www.sec.gov/Archives/edgar/data/922475/000119312513071683/d444611d10k.htm; http://online.wsj.com/news/articles/SB10001424052702303819704579318872286744010; https://www.sec.gov/Archives/edgar/data/922475/000092247514000004/form8_k.htm

How can these "schools" get away with such bad behavior? There is a nationwide system of private organizations called accreditors that are supposed to complement government oversight by imposing and monitoring quality standards on colleges and then giving them a seal of approval. But the underfunded, understaffed accrediting bodies are no match for rich for-profit colleges, which can use their resources to co-opt and compromise accreditors. Accrediting agencies get their funding from the schools they oversee, and for-profit college executives often sit on the accreditors' boards of directors. Further, the for-profits can use their armies of lawyers to threaten or sue when accreditation is not promptly forthcoming. While in recent years accreditors have started getting a little tougher, to a large extent they still allow the predators to run wild.[26]

The impact of this industry-wide misconduct is clear: More than half of the students who enrolled in for-profit colleges in a recent year dropped out within about four months, without a degree or certificate.

And, as with Mike DiGiacomo's friends, even students who graduate often cannot find work in the promised field or cannot earn enough to pay back their loans. Nearly all for-profit college students take out federal loans, and 23 percent of them default on their loans within three years of graduating or dropping out. Many more default in the years following.

EDMC -- one company's descent

Pittsburgh-based EDMC, which runs the Art Institute school attended by Mike DiGiacomo, was in fact once a legitimate enterprise, providing quality education programs, and it still has many good teachers as a remnant of that era.

Lorna Hernandez was one of those teachers. She taught graphic design and animation for eighteen years at a The Art Institute of Fort Lauderdale, until she quit in 2012. Unlike some of her faculty colleagues,

[26] http://www.huffingtonpost.com/2013/09/19/for-profit-college-accreditation_n_3937079.html

Hernandez, chair of the school's animation department, was not laid off in that year's major downsizing by EDMC. But Hernandez says she "saw the writing on the wall": She believed more firings were ahead, and the school's quality standards, in her view, were rapidly declining.

To Hernandez, for many years the Art Institute of Fort Lauderdale was a great place to teach and learn. " I was proud," she told me.
I have known Art Institutes faculty who are outstanding teachers and practitioners. I have visited schools and seen serious, dedicated faculty in action. I know that many students of these teachers have obtained good jobs in visual arts, television and film, and the music industry. The Art Institutes was a for-profit college that often worked, that genuinely helped many students to train for successful careers.

But the for-profit college industry's successful lobbying in the early 2000's to eliminate any kind of accountability skewed the incentives for for-profit schools. The race to the bottom -- a race to maximize profits by short-changing students and taxpayers -- ensued. It propelled a decade of waste, fraud, and abuse.

EDMC and the Art Institutes took a huge infusion of Wall Street cash and joined in, and in the process trashed their own institution. Lorna Hernandez says the Art Institute of Fort Lauderdale was "wonderful" when she started in 1994, until, a couple years later, EDMC become a publicly-traded company. It got much worse, she says, after EDMC sold itself to a group of private equity investors, with Goldman, for $3.4 billion in 2006. And it kept getting worse after that. Faculty, staff, and students who have lived through this decline have paid the price.

EDMC operates 109 campuses spread across 32 states, along with an online division, and has over 130,000 students, down from 150,000 two years ago. About 53 percent are at the 51 campuses of the Art Institutes, which offers associate's, bachelor's, and master's programs in fields including graphic design, media arts and animation, web development, film and video production, culinary arts, fashion, and interior design. EDMC also operates: Argosy University, which offers doctoral, master's, and bachelor's programs in behavioral sciences, health sciences, business, and education; Brown Mackie Colleges, which provides associate's and non-degree programs to train for entry-level jobs in several fields; South University, which offers a range of degree programs; and Western State University College of Law.

EDMC reported revenues of $2.76 billion for fiscal year 2012. Most of that money comes from you and me. Senator Harkin's Health Education Labor and Pensions (HELP) Committee calculated that 77.4 percent of EDMC's 2010 revenue came from U.S. Department of Education student financial aid. If you add in military and veterans aid money, then 80 percent of EDMC revenue comes from taxpayer money.

EDMC was founded in 1962 and began offering professional development programs in Pennsylvania. In 1970, the company acquired the Art Institute of Pittsburgh, which had been in operation since 1921.[27]

Robert B. Knutson joined EDMC in 1969 and became president in 1971. An Art Institutes professor recalls once meeting Knutson at an EDMC event. The professor described Knutson as serious, smart, a good guy, committed to education. Lorna Hernandez, the Fort Lauderdale professor, says Knutson was "a wonderful man who actually cared." Stephen Burd of Higher Ed Watch has written, "Knutson built the company deliberately, with a steady focus on its long-term success, rather than just on its short-term profits."[28]

But Knutson presided over repeated acquisitions of other schools that made the company bigger and bigger. Growth ultimately led to a public stock offering and, in 2006, the takeover of the company by Goldman Sachs and its private equity partners.

Knutson retired as EDMC's chairman the same year as the Goldman buyout. Promoted to chairman was John R. McKernan, Jr., a Republican former Governor of Maine who had been hired as EDMC's CEO in 2003. McKernan was replaced as CEO in early 2007 by Todd S. Nelson, who had previously been CEO of the nation's biggest for-profit college company,

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[27] http://www.fundinguniverse.com/company-histories/education-management-corporation-history/
[28] http://higheredwatch.newamerica.net/node/59329

Apollo Group, owner of the University of Phoenix. Nelson had led Phoenix to dramatic growth -- tripling revenues between 2001 and 2006, to $2.4 billion. But he departed in a hurry in 2006 after Apollo paid $9.8 million to settle a U.S. Department of Education complaint that the company had engaged in systematic recruiting violations.

The Goldman Sachs deal had created enormous pressure to make money fast. EDMC's former chief financial officer, who retired soon after the buyout, told Senator Harkin's staff in 2010: "You take on that amount of private-equity debt, you need to earn high rates of return for these investors, I was worried that the quality of the experience for employees and students was going to deteriorate."

It sure did. In a major investigative piece in the Huffington Post, Chris Kirkham described how EDMC admissions and recruiting changed once Goldman bought its stake[29]:

> After the deal closed and Goldman became a partner, employees soon noticed a drastic shift in culture. Longtime admissions managers were replaced, ushering in an era in which recruiters were endlessly hounded by supervisors about hitting weekly enrollment targets. The admissions staff nearly tripled, requiring expanded floor space to accommodate a sales force of more than 2,600 across the country.
>
> Management handed down revamped telemarketing scripts designed to prey on poor and uneducated consumers, honing in on their past mistakes in life as a ploy to convince them that college would solve all their problems....
> Under Nelson's new leadership, enrollment and profits at EDMC skyrocketed further. The number of online recruits in particular grew at an astronomical rate, increasing fivefold between 2006 and 2009, after deregulation allowed the company's classrooms to become completely virtual....

[29] http://www.huffingtonpost.com/2011/10/14/goldman-sachs-for-profit-college_n_997409.html

> [D]ay-to-day operations warped from a commitment to students and their success into an environment laser-focused on hitting mandated enrollment targets. New recruits were viewed simply as a conduit for federal student assistance dollars, the employees said, and pressure mounted from management to enroll anyone at any cost.

In search of more cash, EDMC became a public company once again in 2009, raising $330 million in a public stock offering. Private, then public, private again, then public again, EDMC's downward spiral, in terms of treatment of students, has accelerated. According to the Justice Department's August 2011 complaint in its suit against the company, EDMC "has created a 'boiler room' style sales culture and has made recruiting and enrolling new students the sole focus of its compensation system."[30] The New York Times summarized the federal allegations[31]:

> Recruiters were instructed to use high-pressure sales techniques and inflated claims about career placement to increase student enrollment, regardless of applicants' qualifications. Recruiters were encouraged to enroll even applicants who were unable to write coherently, who appeared to be under the influence of drugs or who sought to enroll in an online program but had no computer. According to the suit, recruiters were also led to exploit applicants' psychological vulnerabilities -- for example, a parent's hopes of moving a child out of a dangerous neighborhood.

McKernan stepped down as EDMC's chairman in 2012. Todd Nelson moved up to chairman, and Edward West, the president and chief financial officer, became the new CEO. Nelson left the board at the end of 2013. By then, the company would face multiple investigations and a steep decline in fortunes.

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[30] http://big.assets.huffingtonpost.com/USAvEDMC.pdf

[31] http://www.nytimes.com/2011/08/09/education/09forprofit.html?_r=1&

Lorna Hernandez observed a slide in standards at the Art Institutes of Fort Lauderdale after the initial public offering in 1996. But it got much worse after the 2006 Goldman takeover. "That's when education took second place to profit, pure profit," she says. Hernandez witnessed "a rapid decline in the quality of the students" because the admissions department was "desperate for new students." The new students -- low-income, veterans, and others -- were surely deserving of opportunity. But many lacked qualifications and preparation, and putting them in overpriced programs – programs at that Art Institute campus cost students around $78,000 in tuition and fees for a four-year degree, around four times the cost of Florida State University -- where they could not keep up, was no opportunity at all.

More and more students had post-traumatic stress syndrome, even brain injuries, but faculty received no training in how to work with students with such conditions. Hernandez says there were students who were violent and difficult to manage.

According to Hernandez, a new campus president's arrival ushered in a new era of dramatic cost reductions -- in her words, "cut, consolidate, don't question." She charges that the administration was cutting the school's budget in "desperate and nonsensical ways" -- reducing the quality of toilet paper and paper towels, not buying staples for staplers. The school was selling its computers, closing its print center. Half of the technical staff was let go. Academic advisors were laid off. Adjunct professor pay was cut.

Hernandez concluded that the school was looting its own assets for cash, because the company knew it would soon be worthless.

In Fort Lauderdale, only one area was beefed up -- the hiring of additional admissions staff. Recruiters were calling the same prospective student six times a day. One classroom was converted into an additional boiler room for recruiting.

After the Goldman takeover, Hernandez says, school officials had pressured her to make sure students passed her classes, even if they couldn't do the work. She went along, but this year, she could take no more. She felt she could not in good conscience pass one particular student. He contested a failing grade. Management pushed her. That's when she decided to retire.

"Pure corporate greed," says Hernandez, "destroyed something that was so viable and so wonderful in terms of education"

Meanwhile faculty nationwide were summoned to a mandatory online ethics class -- with opening remarks by EDMC head Todd Nelson.

Jeremy Dehn taught film production at EDMC's Art Institute of Colorado from 2008 to 2010. He published a *New York Times* op-ed concluding, "We need to quit subsidizing for-profit colleges."[32] Dehn told me that his classes had an "insane mix" of students, some talented, some who could barely read. This made it very difficult to teach, pulling down those students who were able to do the work. He says the federal government is "pissing the money away" by sending student aid to for-profits when many state schools "have no money."

Dehn also says that while tuition at the Art Institute was much higher than state schools, adjunct professors like him were paid significantly less at the for-profit school than at area private non-profit and public colleges.

Another professor, who teaches at a campus of EDMC's Brown Mackie college, told me that in March 2012 many faculty members there were demoted from full-time to adjunct, their salaries reduced and health benefits taken. At the same time, the school raised tuition; a two-year associate's degree at Brown Mackie cost students around $30,000, compared to $6000 at many community colleges. This professor says recruiters at the school targeted the most vulnerable local populations with misleading, high-pressure sales calls. She heard them lie to prospective students about the possibility of transferring credits to other schools. Speaking to each other, these recruiters refer to the students as "packages." Because the school "wants bodies," she says, it accepted virtually any applicant, even ones who couldn't do the work. Class sizes

[32] http://www.nytimes.com/2010/10/11/opinion/11dehn.html

increased. The school's sole job placement staffer manipulated facts to certify adequate placement rates. This Brown Mackie teacher believes EDMC is "trying to squeeze as much as they can" from the asset before it collapses.

The effect of EDMC's decline has been felt across its campuses. Of the 78,661 students who enrolled at EDMC-owned colleges in 2008-9, 62.1 percent, or 48,840 students, dropped out as of mid-2010.[33] One in six EDMC students defaulted on loans within three years of graduating or withdrawing. When the U.S. Department of Education measured colleges in the summer of 2012, under its original "gainful employment" rule, to determine which schools -- because of high prices, low graduation rates, and poor job placement outcomes -- left large numbers of students with unmanageable debt, 17 out of 180 programs at the Art Institutes that were surveyed flunked all three prongs of the test, whose standards were almost absurdly low.[34]

At a 2010 HELP committee hearing, Kathleen Bittel, a former recruiter and career counselor for EDMC, testified about the disparity between the size of the school's recruitment staff and its job placement staff:

> I see a systemic problem here when there are only nine employees servicing the students that are being recruited by an admissions workforce of almost 1600. Career Services employees are being paid nearly a third of what the top performers in the admissions department receive. I believe these facts speak volumes as to where the real priorities lie within these companies.

Bittel testified that EDMC placement staff had to meet quotas for

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[33] http://www.help.senate.gov/imo/media/for_profit_report/PartII/EDMC.pdf

[34] http://www.insidehighered.com/news/2012/06/26/education-department-releases-data-gainful-employment-rule; http://www.republicreport.org/2012/court-ruling-for-profit-colleges/

successful job placement of students. They succeeded only by manipulating the information, she said.

There remains one area where EDMC serves students better than many for-profit college businesses -- teaching. The Senate HELP committee found that, at least of 2010, EDMC "had far more full-time faculty than similarly sized for-profit education companies and likely more vibrant faculty involvement in academics." The committee also found that EDMC spent $3,460 per student on instruction in 2009, compared to $4,158 per student on marketing and $3,460 per student on profit, "one of the highest instructional expenditures amongst large publicly traded for-profit education companies." As noted, some for-profit colleges spend as little as $900 to $1000 annually on instruction.

But being a leader in spending on education among for-profit colleges isn't saying much; non-profit and public colleges generally spend much more on instruction. For example, according to the HELP committee, Penn State spends $16,507 per student on instruction, the University of Pennsylvania $38,974, and Community College of Allegheny County, whose tuition is a small fraction of the Art Institutes's, spends $4,173. Moreover, it seems EDMC's relative emphasis on instruction may be a remnant of a time when the company leadership was truly committed to helping students build careers -- a remnant that is rapidly fading.

Asked for a response to Mike DiGiacomo's account of his experience at the New England Institute of Art, Tyler Gronbach, EDMC's senior vice president for corporate communications, emailed me a statement that read in part:

> While student privacy rules keep us from commenting on specific student situations, this story is not representative of the hundreds of thousands of students who have graduated from our colleges and universities to pursue meaningful careers.
>
> We recognize that excessive debt is a problem that burdens many students in every college and university in America. Current laws and regulations permit students to borrow more than the cost of tuition and fees up to the maximum loan limits set by Congress.

While we cannot limit the amount of debt a student incurs, we strive to provide access to resources that encourage responsible borrowing and repayment of loans.

What the second paragraph of this EDMC statement is saying, and what for-profit college officials frequently say, is that the heavy student loan burdens faced by students are the fault of students, who borrow more than they need to pay for their educations. The for-profit college companies tend to accept no responsibility for their sky-high prices, deceptive enrollment and financial aid tactics, and poor quality programs and job placement records. They blame their own students instead, implying that the students are pocketing the money themselves.

I have heard from EDMC staff members, speaking to me without authorization from the company, that there are in fact some students who do enroll in order to pocket some cash and walk away, but these staff say that the management at these schools recognize the problem and don't care, because the school gets its federal aid dollars anyway. In any case, the vast majority of students are not hoarding cash – they are turning over their federal checks to the school, borrowing more money in private loans, and going broke in the process.

In the case of EDMC, authorities do not necessarily agree that students' financial ruin is their own fault. The Justice Department and half a dozen states have sued EDMC for fraud, alleging the company paid its recruiters based on the number of students signed up, in violation of federal rules.[35] In May 2012, a federal judge dismissed some of the claims but allowed the case to go forward.[36]

In December 2013, EDMC agreed to pay $3.3 million in restitution and fines to settle charges with the Colorado attorney general that its Argosy University engaged in deceptive marketing practices. Argosy led students to believe that the school was working to get its doctorate of education in counseling psychology degrees accredited by the American

[35] http://www.justice.gov/opa/pr/2011/August/11-civ-1026.html
[36] http://www.leagle.com/decision/In%20FDCO%2020120514973

Psychological Association and that graduates would be eligible to be licensed psychologists in Colorado, but that was not the case.[37]

And in January 2014, EDMC disclosed in a filing with the Securities and Exchange Commission that it had received inquiries from twelve state attorneys general regarding the Company's "practices relating to the recruitment of students, graduate placement statistics, graduate certification and licensing results, and student lending activities, among other matters."[38] EDMC had already disclosed in recent years that it was under investigation by the attorneys general of Florida, Kentucky, New York, and Massachusetts.[39]

As revelations about its abuses have increased, EDMC saw its stock price plunge from $43 in 2006 to $2.84 in 2012. Student enrollments also had fallen significantly. EDMC responded by laying off hundreds of teachers and other staff, but spending ever more on recruiting and admitting more and more students incapable of doing the relevant coursework. Meanwhile, the top two EDMC executives seemed to be practically looting the company: Edward West's compensation grew from $1.5 million in compensation for 2009 to $6.4 million for 2011, while Todd Nelson received $1.8 million in 2009 -- and $13 million in 2011.[40]

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[37] http://www.denverpost.com/news/ci_24663345/argosy-university-denver-fined-3-3-million-deceptive; http://www.coloradoattorneygeneral.gov/press/news/2013/12/05/attorney_general_suthers_announces_consumer_protection_settlement_argosy_unive

[38] http://edgar.sec.gov/Archives/edgar/data/880059/000088005914000002/a124148-k.htm

[39] http://www.sec.gov/Archives/edgar/data/880059/000088005913000005/form8-k.htm; http://www.sec.gov/Archives/edgar/data/880059/000119312511236734/d10k.htm

[40] http://www.huffingtonpost.com/davidhalperin/edmc-professors-and-stude_b_1909449.html

What about Career Education Corporation?

A spokesman for Career Education Corp. (CEC), the owner of the Gibbs school Mike had attended first, agreed to provide me with a comment on Mike DiGiacomo's account of his experience at Gibbs, but then never did.

But like EDMC, CEC has a record of deceiving and abusing students. CEC has mostly retired the Gibbs schools name, and now runs schools including Sanford-Brown, Brooks, and the Cordon Bleu cooking school. In August 2013, New York Attorney General Eric Schneiderman announced that CEC would pay $10.25 million in fines and restitution to students over charges that the company significantly inflated its job placement rates in communicating with students, accreditors, and government officials. CEC's bad acts included: counting as placed in a permanent job a student who worked one day at a health fair created by CEC; counting graduates of criminal justice programs as placed "in field" if they obtained retail sales jobs; and claiming placement rates as ranging from 55 percent to 80 percent, when the actual figures were 24 percent to 64 percent. Like many for-profit schools, CEC was also caught failing to inform prospective students that some of its programs lacked programmatic accreditation, meaning that graduates would have no opportunity to apply for the kinds of jobs for which they thought they were training.[41]

Then, in January 2014, CEC joined EDMC, ITT Tech, and also Corinthian Colleges, in filing disclosures with the Securities and Exchange Commission saying they were now under investigation by state attorneys general. Each school said it had received requests for information and documents from a group of 12-13 state AGs, with the AGs of Kentucky, Iowa, Pennsylvania, and Connecticut each taking the lead on investigating one of the companies. (All four companies said they intended to cooperate.) This appeared to be a major upping of the ante by state attorneys general. Kentucky Attorney General Jack Conway was leading a bipartisan group of some 30 state AGs investigating this troubled industry for misleading students about college costs, student loans, graduation

[41] http://www.ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-1025-million-dollar-settlement-profit

rates, licensing requirements, placement results, and other matters. CEC had already disclosed in recent years that it was being investigated by the attorneys general of Florida, Illinois, New York, Massachusetts, and Oregon.[42]

There was also a federal investigation. According to another CEC filing, the Chicago office of the Securities and Exchange Commission has been investigating "student placement determination practices and related matters."[43]

This wasn't the only recent trouble for Career Education Corp. In June 2013, a California arbitrator awarded Anna Berkowitz $217,000 in the first of over 1,000 claims filed against CEC's Le Cordon Bleu College of Culinary Arts in Pasadena. While arbitrators normally side with corporate defendants, Berkowitz's lawyer obtained strong evidence of misconduct at CEC. The arbitrator ruled that CEC committed fraud when its staff told Berkowitz that borrowing $40,000 to pay for eight months of training at the school would make her "a shoe-in" to land a job as a pastry chef earning $75,000 a year to start. Berkowitz and other former Cordon Bleu students say they now realize it was highly unlikely they would ever be able to pay off their heavy student loans by working in the culinary industry.[44]

CEC's most recent student loan default rate -- 21.6 percent of its students defaulted within 3 years of leaving the school -- is almost double the average rate for all U.S. colleges. And in 2012, the non-profit group The Institute for College Access and Success (TICAS) (which supports some of my work) charged, based on facts presented in Senator Harkin's

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[42] http://www.sec.gov/Archives/edgar/data/1046568/000119312513083541/d455233d10k.htm#sthash.EOzWOutj.dpuf;

[43] http://www.sec.gov/Archives/edgar/data/1046568/000119312513083541/d455233d10k.htm

[44] http://www.pasadenanow.com/main/arbitrator-samuel-g-jackson-awards-anna-berkowitz-and-father-martin-217000

report on the industry, that CEC and other for-profit colleges may be systematically manipulating the loan default rates that they report to the U.S. Department of Education -- presumably because if those default rates get too high, a company loses its eligibility for federal student financial aid.[45]

CEC students and staff reach out to me on a regular basis and tell me about abuses by the company. One is Amber Morgan, who enrolled at CEC"s Brooks College in Long Beach, California, to study fashion merchandising. The financial aid office there, Amber says, "knew where I needed to sign on my applications on my student loans, but did not properly advise me on the gravitas of taking out such hefty loans." She approached the dean of her program with her concerns, and the dean responded, according to Amber: With your new high paying professional job, you will have no problem paying back these loans.

Once Amber graduated with an associate's degree in 2003, however, she could not find a job in her field. She was hampered, she discovered, by her school's "reputation as a degree mill." Also, CEC's job placement help "came in the form of an Excel Spreadsheet with a list of jobs and the contact number." Contrary to what school officials promised when she enrolled, Brooks College in fact had no special connection with the fashion industry. Eventually, Amber returned to the same job she had before she graduated – cashier at Macy's. But now she had nearly $20,000 in student loan debt.

Ten years later, Amber has started over with her education by enrolling at a community college and is now getting close to earning her bachelor's degree from California State University at San Bernadino. "This is all I wanted," Amber says. "A reputable degree and a career to build on." She would be the first person in her family to obtain a BA. But paying for school has been a challenge because of her debt from Brooks College, obtaining a degree that did nothing for her career. " I was hoodwinked" by CEC, Amber says, "into signing up for a plethora of student loans to finish

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[45]
http://www.ticas.org/files/pub/TICAS_memo_on_CDR_evasion_082112.pdf;

my education, as were many of my classmates who were not affluent enough to afford the steep tuition."

If students and taxpayers are losing so much money in this deal, who is bringing home that money?

The educator

The images on his personal website and elsewhere depict a life of glitzy charity events and socializing with the rich and famous – him posing jovially with George W. Bush and Bill Clinton, Michael Bloomberg and Corey Booker, Flo Rida and Ashton Kutcher, John Lithgow and Brande Roderick, Ann-Margaret and Larry Hagman, and lots of lovely young women.[46] It's the life of Arthur E. Benjamin of Delray Beach, Florida, and Dallas, Texas. According to his website, Arthur Benjamin is an "Internationally Recognized Educator, Corporate Leader, Philanthropist and Animal Rights Activist."[47] He "has been dedicating himself to investing his time, energy and finances into companies and projects that make a difference in the lives of people and their pets -- including education and animal rights activism.... Arthur lives each and every day as his last one, believing fully in George Bernard Shaw's quote, 'my life belongs to the whole community and that as long as I live it is my privilege to do for it whatever I can.'"

Inspiring. But according to the United States Department of Justice, Arthur Benjamin's role in education was to run a for-profit college operation that systematically defrauded students and taxpayers.

Arthur Benjamin was, from 2005 to 2011, the CEO of the privately-held for-profit college ATI Career Training Center, which had campuses in Florida, Texas, Oklahoma, and New Mexico, and offered programs in fields including health care, information technology, and car repair.[48] Lawsuits

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[46] http://www.huffingtonpost.com/davidhalperin/gallery-fun-fueled-by-for_b_3862056.html
[47] http://www.arthurebenjamin.com/
[48] http://www.youtube.com/watch?v=ddJ4Gtursmw#t=43; http://www.forbes.com/sites/spleverage/2013/01/17/for-loss-

brought by company whistleblowers, and joined by the U.S. Justice Department, detailed how ATI engaged in widespread fraud.

In August 2013, to settle the lawsuits, ATI agreed to shut down and pay $3.7 million; it did not admit any wrongdoing.[49]

But wrongdoing there clearly was, as was first exposed a few years ago by a determined investigative reporter, Byron Harris of WFAA TV in Dallas.[50] According to the federal lawsuits, ATI, driven to sign up students and cash their federal financial aid checks, looked for recruits in homeless shelters and strip clubs, falsely promising jobs with big salaries. ATI signed up non-English speakers for classes conducted in English. An ATI staffer said, "the ATI culture... was to recruit anyone with a pulse."

The lawsuits alleged that ATI falsely told students who had previously dropped out that their current federal loans would be forgiven if they re-enrolled, but ATI in fact had no intention of paying off such debt. ATI falsified student transcripts and attendance records. It deceived Texas officials monitoring the school's job placement rates by: making up false jobs and false employers; inducing a worker at a trailer manufacturer to falsely tell authorities that ATI graduates worked there; creating fake business cards for students whom the school couldn't place in jobs; counting business administration graduates as placed in their field if they worked as cashiers; and employing graduates for a single day past graduation at ATI itself and then counting them as placed.

According to the Justice Department's court papers, top ATI officials "were aware of and/or encouraged the fraud." When Dulce M. Ramirez-Damon, assistant director of education at ATI's Fort Lauderdale campus, complained to management about wrongdoing, she was demoted. Ramirez-Damon filed one of the whistleblower complaints that led to the Justice Department lawsuit.

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education-how-investors-lenders-stand-to-lose-everything-in-ati-enterprises/

[49] http://www.justice.gov/opa/pr/2013/August/13-civ-953.html ; http://www.aticareertraining.edu/

[50] http://www.wfaa.com/news/investigates/Texas-moves-to-revoke-licenses-for-ATI-career-schools-126295418.html

Like many big for-profit colleges, ATI was receiving close to 90 percent of its revenue from federal financial aid -- from taxpayers. In fact, ATI campuses at times even exceeded 90 percent, despite the federal law imposing that 90 percent ceiling.[51] About $236 million dollars in student went to ATI from 2005 to 2013.[52] But despite all the money poured into ATI by taxpayers, a whole lot more money was borrowed by the students to cover tuitions of up to $47,000 per program. Thousands of students were left deep in debt, without any improvement in their job prospects.

ATI's current interim CEO, Michael Gries, told a reporter that all of the alleged misconduct at ATI happened under the leadership of Arthur Benjamin.[53]
So it appears that a significant part of Benjamin's earnings came from an institution, which he led, that systematically defrauded taxpayers, while ruining the lives of struggling students. (Benjamin also has been accused by multiple women of serious personal misconduct, including sexual assault, battery, false imprisonment, and sexual harassment -- charges he has denied, contested with mixed success, and sometimes settled.[54])

Benjamin used some of his earnings to make campaign contributions to politicians. According to Federal Election Commission records, among those candidates receiving support from Benjamin were Rep. Virginia Foxx (R-NC), Rep. John Kline (D-MN), Rep. Alcee Hastings (D-FL), and Mitt Romney. All of these politicians have in recent years taken strong stands in favor of the for-profit college industry -- pushing back hard against efforts by the Obama Administration to hold predatory for-profit colleges accountable for abuses. Benjamin also gave to Barack Obama, John McCain, Hillary Clinton, Harry Reid, and many others.

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[51] http://chronicle.com/article/For-Profit-Colleges-Show/126394/
[52]
http://blogs.dallasobserver.com/unfairpark/2012/08/feds_say_north_texas_chain_of.php
[53] http://www.miamiherald.com/2013/08/30/3596707/for-profit-college-that-ripped.html
[54] http://www.republicreport.org/wp-content/uploads/2013/10/meroncomplaint.pdf ; http://caselaw.findlaw.com/ut-supreme-court/1277981.html

Through 2011, Benjamin also served on the board of directors of the Career College Association, since renamed the Association of Private Sector Colleges and Universities (APSCU), the chief lobbying group of for-profit colleges, and the driver of efforts to overturn President Obama's effort to place some common sense regulations on the for-profit college industry.[55] As the co-chair of APSCU's political action committee, Benjamin helped guide the organization's decisions on giving its own campaign contributions to politicians.

Benjamin apparently also used his earnings to support animal and other charities, and to attend a lot of glamorous events in Miami, Dallas, and elsewhere. It seems that we taxpayers have all helped pay for Arthur Benjamin's charmed life with our hard-earned dollars. Worse, many students paid for Arthur Benjamin's fun with their very futures.

Even though the government shut down ATI, Arthur Benjamin remained in the for-profit college game. Because Benjamin was still the vice chair of the three-member board of directors of another APSCU member, American Institute.[56] That company, which Benjamin helped found, runs health, beauty, and technical training programs in Florida, Connecticut, and New Jersey. (Mr. Benjamin's office did not respond to my requests for comment.)

APSCU appears to be without shame. Its CEO, former Congressman Steve Gunderson (R-WI), has thundered that APSCU members "should be congratulated" for enrolling low-income students, even though many of their students are left far worse off from the experience. APSCU's rhetoric seems to imply that its members are entitled to the continued flow of tens of billions each year in taxpayer dollars, regardless of the quality of their programs. When President Obama went to Fort Stewart, Georgia, in 2012 and signed an executive order to provide U.S. military service members

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[55] http://web.archive.org/web/20100715212038/http://www.career.org/iMISPublic/Content/NavigationMenu/AboutCCA/Directories/BoardOfDirectors/default.htm

[56] http://www.career.org/membership/apscu-member-companies/educational-members/; http://www.americaninstitute.com/

and veterans with better information about their educational options, Gunderson issued a statement calling the Obama action a "deeply unfortunate development." [57]

And as it harbored Arthur Benjamin and others with records of deceiving students, APSCU hosted its events at luxury locations like Las Vegas and the Ritz-Carlton Lake Tahoe Resort, where its members sipped $14 cocktails and relaxed with massages and steam baths. A *Huffington Post* reporter at the Tahoe meeting overheard one of the for-profit college executives tell others that "the best thing about this conference [is] we all get shit-faced and go skiing."[58] With so many for-profit colleges getting most of their revenue from federal aid, taxpayers are footing the bill for these frolics.

Another for-profit college's story illustrates how the current weak rules create incentives for reckless behavior. In January 2013, American Career Institute (ACI) suddenly shut down all nine of its campuses, located in Massachusetts and Maryland, leaving students out in the cold. ACI, which featured programs in web design, gaming design, computer network administration, and medical and dental assisting, immediately shut down its phone number and website, making it more difficult for students to obtain information about how to put their lives back on track.

Marylander Michael Liska was supposed to graduate that summer from a two-year digital media program at the school. His mother told WTOP radio, "We were looking forward to a new career for him." He owed more than $20,000 in student loans. "Not to have any warning that this is happening, what they've done is truly horrible," she said. "It's like a knife through your heart," another student, Mim Pierre, told WHDH Boston. "It's like yesterday you wake up, you have class, you have homework, you have finals. Then the next day you wake up and there's no more school."

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[57] http://www.republicreport.org/2012/obama-order-service-vets-colleges/
[58] http://www.huffingtonpost.com/2012/02/17/for-profit-college-chiefs-lake-tahoe_n_1283331.html

As the news broke, I located ACI owner and CEO Andree Fontaine, and we spoke by phone. Fontaine, who operated the business through its 15-year history, insisted the school was making a difference, helping students who couldn't succeed elsewhere.

But in fact, more than 300 students already had submitted complaints about the school to the state of Massachusetts alone, and Massachusetts attorney general Martha Coakley was investigating.

Fontaine argued that declining enrollment at her campuses was mostly the result of increasing reluctance by students to borrow money in a bad economy. She continued to retain most of the staff even as "enrollments got soft." She said ACI was "forced to close due to unanticipated inability to access additional credit from the school's lenders." She told me "there are bad schools out there" in the for-profit college sector. "But we weren't bad. We did everything we could." She says was making herself available to students and working for solutions to allow them to continue their educations.

But, as noted, often credits at for-profit colleges are not transferable to other schools.

Fontaine was one of many for-profit college executives who tried to prevent efforts by the Obama Administration to tighten accountability standards for the industry. In a 2010 letter to the U.S. Department of Education, Fontaine urged the administration not to move ahead with its proposed "gainful employment" rule, which would cut off federal student aid to schools that, through high-priced, low-quality programs, consistently left students with insurmountable debt. Fontaine’s letter claimed that the rule would threaten her school: "Our employees are vested in our students needs... One only need visit one of our campuses to see the care and attention given to our students."

The gainful employment rule was issued by the Obama Administration in 2011, but only after it had been heavily watered down under pressure from for-profit college industry lobbyists, including through their trade association APSCU, which submitted Fontaine's letter to the Department of Education. The rule has never gone into effect, because APSCU sued in federal court to block it.

So Fontaine could not blame ACI's failure on new regulations. Rather, it may have been undermined in part by the factor cited by Fontaine -- the reluctance of students to borrow -- and perhaps also by: (1) increasing public awareness, which eventually reached prospective students, that many for-profit colleges are good at recruiting students and depositing their financial aid checks but bad at educating them, and (2) an overly permissive regulatory environment that allowed schools to overreach.

ACI had been growing fast. It reported revenues from federal financial aid of $6.5 million in 2009-10, but that figure more than quadrupled in a single year, growing to $26.9 million in 2010-11, and to $30 million the next year. Even as the school's lender was closing in, ACI was announcing, just weeks before it shut down, a new dental assistant program in Maryland and a nursing aid program in Massachusetts. And while Fontaine said her college was reasonably priced, tuition was high, for example $15,000 for a 9-month medical assistant certificate, or $23,000 for a one-year digital media design certificate, cost that had the potential to leave students with too much debt.

In November 2013, Attorney General Coakley sued the shuttered ACI, claiming that the company falsified grades and attendance records to qualify for federal aid. Coakley alleged that the school signed up students who were unqualified, delivered poor quality instruction, pressured teachers to inflate grades and falsify attendance records, and left students with heavy debt. According to the AG's complaint, one former ACI employee said, "If the student had a heartbeat and they could sign their signature and get approved for a loan, they were accepted students." An employee also asserted that before an audit for reaccreditation, school staff "were there around the clock changing documents." The complaint further alleged that when ACI closed, it did not refund tuition for any of its

1,400 Massachusetts students, but did pay full salaries to Fontaine and top company officers. ACI's lawyer denied the charges.[59]

The AG's case against ACI is pending. But even a well-intentioned owner, who sincerely wanted to help students, could have been enticed to grow too fast by a federal system that offers a seemingly endless flow of taxpayer-funded financial aid dollars with few accountability standards. The problem is that, when these enterprises fail, the losers are not just the businesses and their employees; there are also the taxpayers left to cover defaulted student loans, and, of course, the students who have invested their fortunes and their time in hopes of building better futures for themselves, but are left locked out, their dreams shattered.

An industry buys friends

After shocking revelations of for-profit college abuses became public, through media reports and government investigations, the newly-elected Obama administration initiated reforms to hold bad-performing schools accountable.

And this is where the tragedy, and the outrage, of the for-profit college story deepens. When they were caught abusing students, the big industry players did not apologize and accept reforms. Instead, they hired the most well-connected establishment figures to claim they had done nothing wrong, that they were the victims of rabid ideologues opposed to profit-making ventures, or of sinister Wall Street short-sellers betting on their demise. They insisted that no serious reforms were needed.

In 2009 the Obama Administration began efforts to issue a rule that would implement a requirement written into law in 1965 that federal money go only to those career education programs that actually prepare students for "gainful employment." After a series of public meetings of stakeholders, the Department of Education published a proposed rule that

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[59] http://www.mass.gov/ago/news-and-updates/press-releases/2013/2013-11-21-aci-complaint-regs.html; http://www.bostonglobe.com/business/2013/11/21/coakley-sues-framingham-for-profit-school/rI8CILICQIt3ipSoBFr3kM/story.html

would penalize, and ultimately remove federal funding from, programs whose students were consistently unable to pay down their loans because their earnings were too little.[60]

The for-profit colleges attacked this draft rule with all their taxpayer-funded might.

To get a taste of the for-profit college owners' fury over the prospect of rules that would penalize schools that left their students broke, consider an open letter that Carl Barney, the owner of for-profit Stevens-Henager College, wrote to fellow sector executives in April 2011.[61] According to Barney:

> Our sector of education has been under planned, massive attack from some government officials, government colleges and universities (our competitors), consumer groups, plaintiff attorneys, and teachers' unions ad nauseum. And, into this unholy alliance, like vultures, we have discovered that short-sellers were the chief planners and orchestrators.

Barney argued that the for-profit college sector was being attacked, through "ugly slander and denunciations by Senator Harkin and promoted by some in the media," because of the greed of Wall Street short-sellers who bet against the industry; and because the sector is "enormously successful" and thus a threat to other colleges. A third reason claimed by Barney was:

> philosophic -- the most powerful reason. It underlies and "justifies" much of the disgraceful, unethical, and criminal activities of our adversaries: the Marxist view of profit.... There are many in Washington and in government colleges and universities who are convinced that profit is evil; and, therefore, what we do is evil.... Their view regarding profit as evil is their justification for vilifying us and for trying to damage us.

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[60] http://www.gpo.gov/fdsys/pkg/FR-2010-07-26/pdf/2010-17845.pdf
[61] http://www.careereducationreview.net/featured-articles/docs/2011/CareerEducationReview_Barney0511.pdf

What school was Carl Barney defending? Stephens-Henager, the school he owned, was headquartered in Ogden, Utah, and had about 10,000 students online and on ten campuses in Utah and Idaho. The school offered degrees in business, health care, information technology, and graphic arts. One of Stevens-Henager's employees wrote a letter to authorities alleging a lack of standards and integrity in the school's recruiting: "Our admission representatives are required to enroll anyone and everyone. All entrance and diagnostic testing has been eliminated... Toothless and homeless people are not marketable and will never pay back student loans. We still enroll them.... Our director said, 'Get 40 people and I don't care what you say or do to get them.'" Numerous students claimed that the school only cared about making money, not about helping students.[62]

Stevens-Henager-owned schools had established records of leaving their students deep in debt. For example, as of 2009, 40.2 percent of students of the Flagstaff, Arizona, campus of CollegeAmerica defaulted on their loans within three years. The figure was 38.8 percent at the CollegeAmerica campus in Denver, and a still-high 24.7 at the Stevens-Henager campus in West Haven, Utah. For comparison, the default rate at Michigan State University was 4.3 percent.

In early 2013, Stephens-Henager announced it was converting to become a non-profit school, following presentations by industry lawyers at the APSCU conference and elsewhere laying out the potential upsides of doing so in an environment where for-profit colleges had suffered reputational damage – and amid concerns by student advocates that such conversions could be easily abused by unscrupulous owners. Stevens-Henager's CEO, Eric Juhlin, explained to the *Idaho Statesman* that the switch was made to allow the college to obtain private donations and, according to the paper, "to meet the long-term vision of its single shareholder, Carl Barney" – puzzling, given Barney's impassioned defense of for-profit education two years earlier.

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[62] http://www.studentsreview.com/UT/SHC_comments.html?page=1&type=&d_school=Stevens%20Henager%20College%20Ogden

Perhaps recognizing that unleashing on Capitol Hill a horde of indignant Carl Barneys was not the best way to proceed, the for-profit college industry assembled, as lobbyists and validators, a dream team of skilled operators and respected leaders.

Among the Washington lobbyists and consultants retained by the for-profit college industry in the midst of its struggle to stop the Obama regulations were Republicans like former Senate leader Trent Lott (MS), former representative Vin Weber (MN), and former top Bush Administration Department of Education official Sally Stroup. But the industry focused its hiring on prominent Democrats like former Senator John Breaux (LA), former congressmen Vic Fazio (CA), Richard Gephardt (MO), William Gray (PA), Toby Moffett (CT), and Al Wynn (MD); Penny Lee, a former aide to Senate Majority Leader Harry Reid (NV); and the pugnacious former Clinton White House lawyer Lanny Davis. [63]

Former Pennsylvania governor Ed Rendell (D) was among the respected national leaders, along with former New Jersey governor Tom Kean (R), former MacArthur Foundation president Jonathan Fanton, and Harvard professor Sara Lawrence-Lightfoot, recruited by a new industry-created group, the Lanny Davis-directed Coalition for Educational Success, on a panel to create and monitor a code of conduct for career colleges. That panel that proved to be nothing more than a public relations stunt when it ultimately just disappeared.[64]

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[63] http://www.bloomberg.com/news/2010-12-23/for-profit-colleges-double-spending-hire-ex-congressmen-to-beat-aid-rules.html; http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all; http://www.republicreport.org/2012/video-superlobbyist-trent-lott-fumbles-to-explain-why-hes-shilling-for-scam-schools/; http://www.huffingtonpost.com/2012/08/30/for-profit-colleges-lobbying_n_1842507.html

[64] http://www.cappsonline.org/wp-content/uploads/27th_Annual_Conference/Closing%20Session%20Speech%20-%20Avy%20Stein,%20Coalition%20for%20Educational%20Success.pdf ;

Kaplan hired Anita Dunn, who had been Obama's 2008 campaign and White House communications director. Having helped get Obama elected, Dunn then worked to undermine Obama's effort to hold for-profit colleges accountable (as well as working for other corporations to weaken Obama initiatives on obesity and financial reform). Dunn then returned to Obama to advise his 2012 campaign. [65]

This overwhelming force led Senator Dick Durbin (D-IL) to say that the for-profit colleges "own every lobbyist in town."[66]

The for-profits plastered the airwaves with advertisements claiming that Obama reforms would destroy student options. They engaged in dirty tricks, sending letters from nonexistent people attacking the motives of advocates for reform (including me), and inducing surrogates to launch phony ethics attacks on Obama officials and non-profit groups.[67]

Another frequent trick was to publish an opinion article by a prominent person, praising for-profit colleges -- and never disclosing that the writer had a financial connection to the for-profit college industry; among those who did that were former governor Kean, former senator

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http://www.republicreport.org/2012/fanton/; http://www.huffingtonpost.com/davidhalperin/who-wrote-the-for-profit_b_4118514.html

[65] http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all ; http://www.republicreport.org/2012/anita-dunn-lobby/

[66] http://www.huffingtonpost.com/davidhalperin/as-states-act-to-shut-dow_b_1634712.html

[67] http://thinkprogress.org/economy/2011/02/18/145082/phonyletters-subprime-college/; http://www.huffingtonpost.com/lanny-davis/what-transparency-by-the-_b_788308.html

Bob Kerrey (D-NE), former representative Bob Barr (R-GA), and Democratic consultants Al From and Bill Knapp.[68]

Kean wrote a 2011 op-ed with Ed Rendell in *Politico* touting the new standards panel on which they both served -- without mentioning that the panel was created by the for-profit college industry, and without disclosing another key fact: Kean is a partner at Quad Partners, a private equity firm that invests in for-profit colleges.

Kerrey co-authored with Jeffrey Leeds a 2013 *Wall Street Journal* op-ed opposing the gainful employment rule, an op-ed that failed to disclose that Leeds is president of Leeds Equity Partners, a private equity firm that invests in for-profit colleges, including EDMC, one of the giant companies that victimized Mike DiGiacomo. Jeffrey Leeds was also serving on the boards of directors of both EDMC and APSCU, and he was once on the board of the for-profit education company Datamark, whose CEO had been Arthur Benjamin. An industry insider describes Leeds as particularly militant on issues related to regulation of for-profit colleges, and the indignant, wounded tone he struck in a 2013 *Wall Street Journal* online debate seemed to bear that out.[69] As for Kerrey, he quit his post as president emeritus at New York's New School in 2013, soon after becoming executive chairman of an "experimental" online higher education venture, the Minerva Institute for Research and Scholarship.

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[68] http://www.republicreport.org/2012/fanton/; http://www.huffingtonpost.com/davidhalperin/bob-kerry-and-private-equ_b_4309566.html ; http://www.salon.com/2011/02/03/bob_barr_for_profit_education/ http://genprogress.org/voices/2010/12/15/16129/al-from-pens-editorial-opposing-regulations-on-forprofits-without-disclosi/ ; http://unitedrepublic.org/washington-post-and-dc-consultant-fail-to-disclose-for-profit-college-ties/

[69] http://online.wsj.com/news/articles/SB10001424052702304477704579252280215613854

Kerrey, in his failed run for the Senate in 2012, received the maximum $5000 contribution from Leeds Equity Partners.[70]

Others among the paid endorsers came from outside of politics. The University of Phoenix hired Suze Orman -- who calls herself "undeniably America's most recognized expert on personal finance" – to teach an online personal finance course and promote the school at a Capitol Hill event, even though attending an expensive for-profit college is one of the worst financial decisions a person can make, and the University of Phoenix frequently leaves its students worse off than when they started.

Well before she announced that she was going to teach at the University Phoenix, Orman wrote an article in *USA Today* warning families, as she did at the Capitol Hill event, of the "skyrocketing costs" of college and urging them not to attend schools they cannot afford. She blamed colleges for failing to explain to students the real costs of attending. But she singled out one school for praise:

> Fortunately, a few universities are realizing their duty to step up to the plate by themselves. The University of Phoenix, for example, makes all its students go through a free and mandatory three-week orientation course to make sure they understand the full costs of college before they sign on the dotted line. These efforts are encouraging.

Was Orman already being paid by Apollo Group, owner of University of Phoenix at this point, or did she really decide that of all the colleges and universities in America, the one most worthy of being singled out for praise was the University of Phoenix? Suze Orman's office did not respond.

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[70] http://www.leedsequity.com/portfolio.cfm?section_sub_id=6&portfolio_id=29; http://unitedrepublic.org/wp-content/uploads/2012/01/HELP-Committee-Presentation.pdf; http://www.leedsequity.com/team.cfm?section_sub_id=4; http://www.huffingtonpost.com/davidhalperin/bob-kerry-and-private-equ_b_4309566.html.

But Phoenix's three-week orientation workshop mentioned by Orman was required for prospective students to help them determine " if our University is right for you." The 2013 syllabus showed that new students would view four videos featuring Suze Orman! When Orman singled out the Phoenix orientation for praise in her *USA Today* article, she forgot to mention that she was one of the instructors.

The University of Phoenix also paid with your tax dollars to put its name on the stadium where the NFL Arizona Cardinals play – for $154 million over 20 years.

Meanwhile, another for-profit giant, DeVry, paid an undisclosed sum to be "An Official Education Provider" of the United States Olympic Committee. About 80 percent of DeVry's revenue is from federal tax dollars, so you're paying for that, too. In a recent year, DeVry schools reported a sky-high 24 percent student loan default rate, higher than their 22 percent graduation rate.[71]

In February 2014, DeVry disclosed in an SEC filing that the Federal Trade Commission had asked the company for documents regarding "advertising, marketing, or sale of secondary or postsecondary educational products or services or educational accreditation products." DeVry said it would cooperate. This appeared to be the FTC's first big effort to investigate a major for-profit college. But there could be more to come – the FTC's mission is to crack down on unfair and deceptive business practices, and it seems that many for-profit colleges are built on such practices. These institutions need to deceive students, because if students knew the truth about what they were getting into, they wouldn't enroll. The Massachusetts and Illinios attorneys general also are investigating DeVry.[72]

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[71] http://www.usatoday.com/story/news/nation/2013/07/02/college-default-rates-higher-than-grad-rates/2480295/

[72] https://www.sec.gov/Archives/edgar/data/730464/000115752314000382/a50797415.htm ;

For their lavish conventions, the for-profits' trade association APSCU retained some of America's biggest names to be keynote speakers and lend their credibility to the industry. In 2011, the APSCU convention near Dallas featured former Secretary of State Colin Powell. It's unfortunate that Powell, who is also a former Chairman of the Joint Chiefs of Staff, has embraced an industry that abuses service members and veterans. Powell chairs the advisory board of Leeds Equity Partners, the firm that owns pieces of EDMC and other for-profit colleges and is run by Bob Kerrey friend Jeffrey Leeds.[73]

By the way, the musical entertainment at the 2011 APSCU meeting was the Beach Boys (the semi-faux version of the band led by Mike Love). They could have sung, "Fun, fun, fun, 'til taxpayers take the money away."

For 2012, at the APSCU convention in Las Vegas, keynotes were former President George W. Bush and K-12 school "reformer" Michelle Rhee.

Bush might have been willing to tell the for-profit colleges what they wanted to hear, since it was under his Administration that the U.S. Department of Education turned a blind eye to misconduct in the industry. But Bush perhaps didn't get a full briefing about the audience. In his remarks, Bush addressed his signature education initiative, the No Child Left Behind plan, and said, "Any time you reform, it sparks controversy…. My attitude all along is that you've got to measure…. If government spends money, doesn't it make sense for government to ask, are there results? I think it does." Bush paused, perhaps waiting for applause, but he didn't get any.[74] Not surprising, because, of course, APSCU and its members were spending millions lobbying furiously to block Obama Administration rules aimed precisely at measuring performance for schools receiving federal aid.

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http://www.sec.gov/Archives/edgar/data/730464/000115752313001773/a50610060.htm
[73] http://www.leedsequity.com/team.cfm?section_sub_id=5
[74] http://www.republicreport.org/2012/apscu-highlights-bush-rhee/

As to Michelle Rhee, after some critics, including me, criticized her for agreeing to speak at APSCU, when her whole education message was one of accountability, she wrote an article pledging to deliver tough words to the industry. But when she rose to speak, Rhee soft-pedaled her critiques and told the group that some of them were "doing incredible work."[75]

In 2013, APSCU announced as the keynote for its convention in Orlando, Florida, Admiral Mike Mullen, the recently retired chairman of the Joint Chiefs of Staff. I published an article noting that Mullen had been a strong advocate for higher education for service members and veterans and had championed America's community colleges.[76] APSCU's website made plain why they wanted Mullen to appear on their stage; APSCU boasted that Mullen's appearance at the convention would "be a truly extraordinary moment for private sector education, bringing increased visibility and respect to the sector." I asked why Mullen would want to bestow such credibility on the industry, when President Obama had asserted forcefully that some for-profit colleges were abusing students; when Holly Petraeus, said these schools saw our troops as "dollar signs in uniform"; when Senator Tom Harkin had issued an extensive report documenting how for-profit colleges abuse our troops and veterans. For reasons unknown, Mullen ended up not appearing, but APSCU found a willing replacement: General Wesley Clark.

During the first phase of the fight over the gainful employment rule, I was the director of Campus Progress, an organization (part of the Center for American Progress think tank) that helped mobilize young people for progressive change. Outraged by the abuses we learned about from public reports and, increasingly, from for-profit college students and staff we met, we helped organize a coalition of groups to support reforms. Our coalition grew to include leading national civil rights, veterans, youth, consumer, and labor groups – the NAACP, National Council of La Raza, Consumers Union, Iraq and Afghanistan Veterans of America, SEIU, and

[75] http://www.republicreport.org/2012/michelle-rhee-pledged-confront-for-profit-colleges-at-their-vegas-meeting-but-she-didnt/
[76] http://www.huffingtonpost.com/davidhalperin/mitch-daniels--mike-mulle_b_2817798.html

many others.[77] We had brilliant strategists and policy experts on our team.

But we were badly outgunned by the for-profit college lobby.

If our coalition asked for a sit-down with key congressional staffers, we would notice at the next table in a large Capitol meeting room a for-profit college lobbyist like Heather Podesta meeting with actual Members of Congress. If we requested a meeting with our coalition members at the White House as the Administration moved toward a final gainful employment rule, we learned later that the for-profit colleges requested and received dozens of meetings.

Avy Stein, a private equity executive whose firm owns the for-profit Education Corporation of America, went to a charity auction and bought himself lunch with Senator Tom Harkin, the lead Democrat on education issues and by then a strong critic of the for-profits. Harkin told the *New York Times* that Stein took the opportunity to threaten to "make life rough for me" if Harkin kept up his attacks. (Stein denied this.)[78]

For-profit colleges also used donations to gain the allegiance of some major non-profit organizations, groups that should have been on the side of students instead. Marc Morial, the head of the National Urban League, whose stated mission is "to enable African Americans to secure economic self-reliance, parity, power and civil rights," wrote an op-ed in the *Washington Post*, opposing the gainful employment rule.[79] It was not known if the Urban League had received anything in return, but the group later publicly accepted a million-dollar gift from for-profit Corinthian Colleges, one of the worst-performing schools, and Morial joined

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[77] http://www.ticas.org/files/pub/GE_coalition_ltr_to_POTUS_April_15_2013_UpdatedMay10.pdf

[78] http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all

[79] http://www.washingtonpost.com/wp-dyn/content/article/2011/01/06/AR2011010604385.html

Corinthian's board of directors, whose members generally received $60,000 per year in cash plus $90,000 in deferred stock.[80]

The venerable liberal group Americans for Democratic Action inexplicably opposed gainful employment[81], and the ethics watchdog group Citizens for Responsibility and Ethics in Washington (CREW) joined with some Republican Members of Congress in calling for investigations of links between reform advocates and Wall Street short sellers, including Steven Eisman, a severe critic of the industry.[82] Soon after, the executive director of CREW, Melanie Sloan, announced she would be leaving to join the firm of Lanny Davis, who had made similar charges about short-sellers and became a lobbyist for the for-profit colleges.[83] (Sloan ended up staying at CREW.) Claims that the Administration was being manipulated by short-sellers were also made, in op-eds, by consultants who were paid by University of Phoenix head John Sperling and, in closed door Washington meetings, by Sperling himself. [84]

Another non-profit leader who seemed to tilt toward the for-profit colleges was Michael Dakduk, executive director of the Student Veterans of America (SVA). While some of his board of directors and rank and file members were urging a tough stand, Dakduk "often opted not to take a hard line against the for-profit industry," as the military newspaper *Stars and Stripes* put it, mildly.[85] Then, in late 2013, Dakduk took a new job:

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[80] http://newsroom.cci.edu/releasedetail.cfm?ReleaseID=760390; http://www.newrepublic.com/article/114041/leon-panetta-quits-corinthian-colleges-why

[81] http://www.prnewswire.com/news-releases/americans-for-democratic-action-opposes-us-department-of-education-proposed-gainful-employment-rule-120912739.html

[82] http://www.citizensforethics.org/crew-demands-investigation-into-wall-street

[83] http://www.salon.com/2010/11/22/ethics_watchdog_sloan_joins_davis/

[84] http://prospect.org/article/why-are-progressives-fighting-student-loan-reform-0

[85] http://www.stripes.com/news/former-student-veterans-chief-goes-to-work-at-for-profit-lobbying-group-1.251165

Vice President of Military and Veterans Affairs at APSCU, the for-profits' lobbying group. An official with a major national veterans organization told me, "I don't know what they're paying him. It's not enough to sell his soul."

For-profit colleges also have sponsored – and influenced – education policy events held by media outlets. Officials at the Chronicle of Higher Education – the leading publication covering the college sector -- admitted to me that they had allowed Career Education Corp. not only to sponsor the Chronicle's Washington DC event on student loan defaults but also to select all the speakers, despite CEC's own terrible record on student defaults. Barmak Nassirian, one of the country's smartest higher education experts, likened the event to "a conference about preventing lung cancer, with the tobacco companies participating and presented as credible interlocutors."[86]

The University of Phoenix is the sponsor of NBC's annual Education Nation conference; an executive told me she was disinvited from speaking at the NBC event in 2013 after she was publicly critical of the school. The University of Phoenix also was the sponsor of a 2013 MSNBC Al Sharpton special, "Advancing the Dream."

Beyond compromising the events themselves, these arrangements raise questions about whether the media outlets, having been paid, will offer unbiased coverage. Sharpton's MSNBC show featured a segment with Arizona Cardinals wide receiver Larry Fitzgerald that seemed like an infomercial for the University of Phoenix.[87] The company's business news channel, CNBC, sometimes presents for-profit college executives and analysts as guests as if they were in a parallel universe, where all the fraud investigations and reports of wrongdoing go unmentioned, and the focus is on earnings, enrollments, and share prices.

Fox Business Channel and local business publications frequently do the same. Fox Business Channel presented APSCU president Steve

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[86] http://www.huffingtonpost.com/davidhalperin/for-profit-colleges_b_1915476.html
[87] http://www.youtube.com/watch?v=PgHZgEfF7dc

Gunderson as a higher education expert commenting on President Obama's College Scorecard effort, which provides students better information about costs and programs at various colleges. The Fox host noted that Gunderson is a former congressman from Wisconsin, but she made no mention of the controversy over for-profit college abuses, or that Gunderson's job is to avoid accountability for those abuses, or that College Scorecard, if well implemented, will make more clear to students how overpriced many for-profit colleges really are.

GOOD magazine allowed the University of Phoenix to be the sponsor of its online pages covering education, and those pages offered no coverage of the for-profit college industry, besides an infographic, produced by GOOD "in partnership with University of Phoenix," that dramatically understated the cost to taxpayers of for-profit schools.[88]

At the height of the battle over the Obama gainful employment rule, the conservative web publication *The Daily Caller*, edited by pundit Tucker Carlson, published an essay by Lanny Davis defending the value of for-profit colleges and using the line of attack regarding Wall Street short-sellers that Sloan, Sperling, and others also employed.[89] The *Daily Caller*'s own reporters soon published a series of articles repeating similar attacks on the short-sellers by Sloan and by Senator Tom Coburn (R-OK) and questioning the ethics of the Harkin and GAO investigations. [90]

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[88] http://www.huffingtonpost.com/davidhalperin/for-profit-colleges_b_1915476.html

[89] http://dailycaller.com/2010/06/25/transparency-by-shorts-on-for-profit-schools-needed-too/

[90] http://dailycaller.com/2011/03/01/crew-pushes-sec-to-investigate-short-seller-obama-administration-partnership-on-education-regs/; http://dailycaller.com/2011/03/03/coburn-education-department-tipping-hedge-funds-on-for-profit-colleges/; http://dailycaller.com/2011/07/21/document-suggests-witness-tampering-by-sen-tom-harkin%E2%80%99s-office/; http://dailycaller.com/2011/03/03/gao-replaces-top-official-behind-error-riddled-report-on-for-profit-colleges/

The *Daily Caller* also published an essay by a "political consultant" named Natasha Mayer, falsely accusing my organization Campus Progress of taking money from traders like Eisman for "a million-dollar campaign on the exact same side of the issue as the wealthy short-sellers."[91] In fact, to counter endless industry TV ads attacking the Obama regulation, we worked with our college intern to make a 30-second video ad and spent $4000 to run it a handful of times on cable TV in Washington, and we had no connection, financial or otherwise, to the short-sellers.[92] (Echoing the arguments of Mayer was Melanie Sloan, writing in *Politico*, who said of the Campus Progress TV ad, "major ad campaigns require major donors," with a link there to Mayer's *Daily Caller* piece.[93]) The *Daily Caller*'s relentless obsession with mirroring the attacks of for-profit college owners was difficult to understand, absent some financial incentive.

In late 2013, Bridgepoint Education and Steve Forbes signed a deal at Bridgepoint's headquarters in San Diego under which Bridgepoint would pay Forbes Media, publisher of Forbes magazine, at least $45 million over twelve years, to name Bridgepoint's Ashford University business school the Forbes School of Business and license Forbes content for Ashford programs. [94] Following this deal, would *Forbes* magazine be prepared going forward to report honestly on Bridgepoint, which has been under investigation by the attorneys general of Californa, Iowa, New York, and North Carolina, and which Senator Harkin has called "a scam, an absolute scam"?[95]

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[91] http://dailycaller.com/2011/01/27/why-is-cap-funding-a-television-campaign-against-for-profit-colleges/
[92] http://www.huffingtonpost.com/davidhalperin/daily-caller-once-rabid-p_b_4589296.html
[93] http://www.politico.com/news/stories/0211/48695.html
[94] http://ir.bridgepointeducation.com/investor-relations/news/Press-Release-Details/2013/Bridgepoint-Education-Reports-Third-Quarter-2013-Results/default.aspx; http://www.forbes.com/sites/forbespr/2013/12/13/ashford-university-and-forbes-media-introduce-the-forbes-school-of-business/
[95] http://www.insidehighered.com/news/2011/03/11/senate_hearing_on_for_profit_colleges_singes_accreditors_as_well_as_bridgepoint;

An industry buys Congress

Of course, in addition to buying media, nonprofit groups, and various notables, the for-profit colleges spent heavily buying friendships with the folks who counted the most: their loyal cheerleaders on Capitol Hill.

The industry invested heavily in campaign contributions to public servants like John Kline (R-MN), chairman of the House Education and the Workforce Committee. Kline is a living symbol of the Republican Party's shameful loyalty to big for-profit colleges.

In the first half of 2013, wrote *USA Today*, Kline "saw a dramatic upsurge in campaign contributions from for-profit colleges." Kline raised $138,350 in the second quarter of that year from the for-profit college industry -- almost 25 percent of the money he raised in that period.[96] Some of the biggest donors to Kline's political action committee were executives of ITT Tech ($13,050), and Apollo Group/University of Phoenix ($11,600).

At the same time, Kline advanced a bill that would shield for-profit colleges from greater accountability for waste, fraud, and abuse.[97] Kline called his legislation the "Supporting Academic Freedom through Regulatory Relief Act," but it had nothing to do with actual academic

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http://articles.latimes.com/2013/jul/24/local/la-me-0725-online-probe-20130725#sthash.EOzWOutj.dpuf; http://www.sec.gov/Archives/edgar/data/1305323/000130532311000022/form8-kx10311.htm#sthash.EOzWOutj.dpuf; http://www.sec.gov/Archives/edgar/data/1305323/000130532311000003/form8-kxny.htm#sthash.EOzWOutj.dpuf; http://voiceofsandiego.org/2011/03/23/bridgepoint-booms-over-troubled-waters/#sthash.EOzWOutj.dpuf

[96] http://www.usatoday.com/story/news/politics/2013/07/23/for-profit-colleges-contributions-house-regulations/2579041/

[97] http://www.usatoday.com/story/news/politics/2013/07/23/for-profit-colleges-contributions-house-regulations/2579041/

freedom. Instead, Kline's bill was about blocking the Obama administration from issuing a gainful employment rule. The bill was also about relaxing federal standards so for-profit college boiler room operations could more easily engage in coercive recruiting of students..[98]

A number of big for-profit colleges -- Rasmussen College, Walden University, Capella University -- are headquartered in Kline's home state. Quite a few for-profit colleges were among the employers who participated in a job fair that Klein held in his district in summer 2013. But since most of those jobs were supported by taxpayers through federal student aid, the question is whether we could be using that federal money to create jobs and support businesses that are doing more good. Kline could use his leadership position to shape federal policy in a way that would give all for-profit colleges strong incentives to help students. Instead, Kline has supported policies that give for-profit colleges incentives to short-change students.

In October 2013, Kline was the keynote speaker for the Minnesota Career College Association, the trade group for the state's for-profit colleges. Its members include Career Education Corp.,EDMC, ITT Tech, and Minnesota-based Globe University.

In 2011, Globe's chief operating officer, Jeanne Herrmann, testified before Kline's committee and firmly opposed the gainful employment rule. She told the committee that the government "could not have contrived a more anti-student and thereby anti-employer and anti-taxpayer proposed rule."[99] By August 2013, we had a better idea why Globe might have been so opposed to being held to a higher standard.

That month, former Globe dean Heidi Weber won a $395,000 jury verdict against the company. Weber alleged that she was fired as dean of

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[98] http://edmoney.newamerica.net/blogposts/2013/house_republicans_fight_to_keep_loophole_in_for_profit_colleges_9010_rule-93927

[99] http://www.insidehighered.com/news/2011/03/18/legislators_criticize_gainful_employment_rules

the school's medical assistant program for complaining that Globe used false job placement statistics and engaged in other misconduct to recruit students.[100] Weber's suit claimed that Globe had violated a state whistleblower law. The Washington County, MN, jury concluded that Weber was indeed fired in 2011 for raising with management that Globe was providing false information to students about placement rates, starting salaries, and the school's accreditation; failing to provide adequate instruction; and improperly paying commissions to recruiters. The jury awarded Weber $205,000 for lost wages and $190,000 for emotional distress.

Globe runs eleven campuses in Minnesota, Wisconsin, and South Dakota and has more than 10,000 students. From 2011 to 2012, the company obtained more than $170 million from federal student aid. More than half of Globe's students drop out without graduating; on some campuses, three-quarters drop out.

A 2012 investigation of Globe by Minnesota Public Radio (MPR) tracked down former Globe staffers. One, Jason Jensen, said of the prospective students, "I fed off of their own shame, their own disgust they had with their own lives." Jensen said he and other recruiters knew that many of the recruits would never graduate but that supervisors ignored their concerns. He said the recruiters were under heavy pressure to sign up students, and that as a result he would call the same student multiple times in a single day: "We'd just slam them with phone calls, with e-mails." Jensen said he was fired for failing to meet recruiting goals. Another Globe recruiter said, "We were really focusing on recruiting the bottom-of-the-barrel-type students."

Another former Globe recruiter, Hannah Von Bank, told MPR, "You're supposed to find the pain that's driving them to go back to school, and use that to get them to enroll." Globe executives, when confronted by MPR with a training document that actually including the phrase "Find Their Pain," told the reporter that managers instructed employees to stop using terminology about "pain" around 2010; this was about the time that government was increasing its focus on misconduct in the sector. But

[100] http://www.startribune.com/local/219803781.html

another recruiter told MPR that this was about public relations, not a real change in procedures: "You know, in trainings they would say, 'We're not going to call them "leads" anymore. We're going to call them "inquiries." Because if anyone caught wind of this, then, you know, it might look like we're in sales. And we don't want them to know we're sales.'"[101]

Globe University graduates leave with an average of $44,824 in student loan debt, and they are almost five times as likely to default on their loans as graduates of the University of Minnesota.[102]

Only John Kline can explain why he has so consistently backed the wishes of companies like Globe University over the interests of students.

Rivaling Kline as an enabler of predatory colleges is Representative Virginia Foxx (R-NC), chair of the House Subcommittee on Higher Education and Workforce Training. Speaking to a group of non-profit colleges in 2013, Foxx paraphrased a well-known quote about the Holocaust to describe the Obama administration's regulation. Foxx suggested to these non-profit college leaders that they should have actively opposed rules to govern career training schools. She invoked the words of German theologian Martin Niemöller about his fellow countrymen who repeatedly failed to oppose Nazi abuses -- "First they came for the communists, and I did not speak out because I was not a communist." Foxx told the audience that she hoped they wouldn't find themselves saying, "They came for the for-profits, and I didn't speak up,'" Asked by *Inside Higher Ed* if Rep. Foxx was suggesting that the Obama regulations were comparable to the Holocaust, her spokeswoman, Ericka Perryman, said, "Of course not."[103]

Two of Foxx's three top donors in the 2012 election cycle were the political action committee of APSCU and Bridgepoint Education, the same

[101] http://www.mprnews.org/story/2012/09/10/education/globe-university-minnesota-school-of-business
[102] http://www.huffingtonpost.com/kyle-mccarthy/globe-university-for-profit-education_b_4152165.html
[103] http://www.insidehighered.com/news/2013/02/06/foxx-criticizes-private-college-leaders-not-defending-profit-colleges

school Senator Harkin labeled a scam.[104] In her first year as chair of the House subcommittee addressing higher education, Foxx received at least $48,668 from people or PACs associated with for-profit colleges.[105]

Indeed, the for-profit college industry's financial ties to the House Republican leadership are rock-solid. In the 2013-14 electoral cycle, the top five recipients of for-profit education campaign cash include Kline, Foxx, Rep. Vern Buchanan (FL), who has been the subject of several ethics investigations, and House Speaker John Boehner. [106]

Perhaps, then, no one should not have been surprised when, in 2012, I obtained a document from inside APSCU showing that the industry was working hand-in-hand with top House Republicans on legislative maneuvers. According to the APSCU draft memo, the group's strategy for passage of key bills in Congress was "directed by" the "House Republican leadership." The document also suggested that APSCU closely integrated its efforts to get favorable votes in Congress with its political strategy of donating to Senate and House candidates and influencing elections – a clear, and troubling, illustration of how the for-profit education industry has used its financial muscle to avoid accountability.[107]

But for-profit college lobbyists definitely have not limited their friendships to House Republicans. Also in that top five in the latest electoral cycle was Rep. Rob Andrews (D-NJ). Andrews, the second-ranking Democrat on the House education committee, announced in early 2014 that he would be resigning his seat to join a Philadelphia-based law firm. The House's ethics committee was in the process of investigating whether Andrews used campaign funds for personal travel. In 2011, Andrews reimbursed his campaign fund more than $13,000 he had spent

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[104] http://www.huffingtonpost.com/davidhalperin/rep-foxx-invokes-holocaus_b_2630753.html
[105] http://www.opensecrets.org/news/2012/04/student-loan-industry-finances-virginia-foxx.html
[106] http://www.huffingtonpost.com/davidhalperin/miller-retirement-could-m_b_4589768.html
[107] http://www.huffingtonpost.com/davidhalperin/leaked-memo-reveals-that-_b_1367013.html

to attend a donor's wedding in Scotland.

Andrews and Rep. Alcee Hastings (D-FL) have been the two Democrats most active in opposing Obama on for-profit college issues. Andrews and Hastings have been steady recipients of for-profit college money, Hastings at least $54,500 between 2009 and 2013, and Andrews at least $78,547.[108] Hastings, before serving in Congress, was impeached and removed from a federal judgeship by Congress in 1989 after being acquitted in court of bribery charges.

Many for-profit college executives, such as EDMC's Todd Nelson, are strongly tied to the Republican Party. Nelson and his wife, Amy, contributed $7,500 to the 2012 Mitt Romney campaign. Amy Nelson also gave $50,000 to the Romney Super PAC, Restore Our Future. In making that donation, she used a Utah post office box as her address. Nelson told *USA Today* that his donations are not related to his business interests. "I've given to those who I feel can help our country," he said. When the paper asked about his wife's $50,000 contribution, Nelson said: "I'm aware of some of the things my wife does and some not." Todd Nelson also donated $30,800 to the Republican National Committee in 2012.[109]

But the for-profit college owners aren't all in the GOP camp. Aggressive for-profit college owners like Avy Stein, Jeffrey Leeds, Art Keiser, John Sperling, and, of course, Arthur Benjamin, have been major donors to Democrats.[110] Some of them give heavily to both parties, but

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[108] http://www.thenation.com/blog/177581/two-house-democrats-lead-effort-protect-profit-colleges-betraying-students-and-vets
[109] http://www.huffingtonpost.com/davidhalperin/for-profit-colleges-romney_b_2058261.html?utm_hp_ref=college&ir=College
[110] http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all&_r=1&; http://www.huffingtonpost.com/davidhalperin/bob-kerry-and-private-equ_b_4309566.html; http://www.huffingtonpost.com/davidhalperin/if-a-for-profit-college-b_b_2661788.html; http://www.nytimes.com/2010/09/08/education/08educ.html?_r=0; http://www.huffingtonpost.com/davidhalperin/discredited-for-profit-co_b_4086125.html

some, like Sperling, are actually strong supporters of progressive organizations. Either way, their campaign cash clearly increases their leverage on Hill Democrats. Sperling, 93 years old at this writing, has used his status to personally pressure prominent people in Washington on for-profit college accountability issues.

The industry's power is even stronger at the local level, in Florida, Minnesota, and other states where for-profits have a big presence. As a number of congressional staffers have told me, many Members of Congress find that for-profit college owners are among their most loyal, active donors and organizers of fundraising efforts.

One such local baron was the socialite and "philanthropist" Arthur Benjamin, discussed above. Another was Ernesto Perez, CEO of for-profit Dade Medical College. By mid-2013 the school, which offers programs in nursing, massage therapy, ultrasound diagnostics, and other health careers, had 2,000 students across five campuses in southeast Florida and one in Jacksonville. Tuition for a two-year associate degree ranged from $16,000 to $60,000 — far more than at Florida public colleges. Many of the students were low-income; 84 to 91 percent receive federal Pell Grants and student loans. The college gets more than 87 percent of its revenue from federal student aid. In fiscal 2010-11, Dade Medical got $15 million in revenue from that federal aid. By 2011-12, that number was at least $33 million.[111]

With his school heavily dependent on taxpayer largesse, the Florida *New Times* called Perez "one of the most politically influential for-profit college owners in Florida."[112] And, given this industry, that's saying something. Perez and his wife gave at least $100,000 to political candidates and PACs, with recipients including Barack Obama, Mitt Romney, Senators Marco Rubio (R-FL), Bill Nelson (D-FL), Harry Reid (D-NV), and Robert Menendez (D-NJ), and Reps. Debbie Wasserman Schultz (D-FL) and Joe Garcia (D-FL). Two Florida governors in four years have

[111] http://www.huffingtonpost.com/davidhalperin/33-million-per-year-of-yo_b_4136451.html
[112] http://www.browardpalmbeach.com/2013-08-29/news/dade-medical-college-has-powerful-friends-but-struggling-students/

tapped Perez for the Florida Commission for Independent Education. A least two Florida officeholders — state Senator Rene Garcia and Miami Lakes council member Nelson Hernandez — ended up on the Dade Medical payroll.[113]

Perez told the *New Times* how it's done: "Whether you're running a hot-dog stand or a national conglomerate, you need access to these individuals if you want to engage the political process." But, he says, "if you look at the amount of money we've contributed, we don't get a lot in return."[114]

Not everything, anyway. In summer 2013, the Florida Board of Nursing put some of Dade Medical's nursing programs on probation, after students flunked the nurse licensing test at alarmingly high rates.

In October 2013, prosecutors in Miami charged Perez with a felony count of providing false information through a sworn statement, plus two misdemeanor counts of perjury. When Perez was named to Florida's Commission on Independent Education — a panel charged with overseeing schools like his — he omitted criminal convictions and arrests from his Senate confirmation questionnaire.

Perez failed to mention that in 1990, he was arrested in Wisconsin for second-degree sexual assault of a child. Perez was the singer in a heavy metal band, Young Turk. Following a bar gig near Neenah, Wisconsin, the band members and some locals went to a nearby motel. A 15-year-old girl later said she was sexually assaulted by Perez and at least two other band members. Perez eventually pleaded no contest to misdemeanor charges of battery and exposing himself to a child and was sentenced to six months in jail. He appealed the sentence, but a Wisconsin appeals court upheld the punishment, citing the fact that Perez repeatedly struck the girl with his belt, which the court found to be a "debasing and degrading invasion."

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[113] http://www.browardpalmbeach.com/2013-08-29/news/dade-medical-college-has-powerful-friends-but-struggling-students/
[114] http://www.browardpalmbeach.com/2013-08-29/news/dade-medical-college-has-powerful-friends-but-struggling-students/

Also, in 2002, Perez was arrested in Miami for aggravated assault. This time, Perez's band was performing at a Miami outdoor shopping mall when he apparently felt an audience member, Richard Halpern, had gotten in his face. According to a police report, Perez told Halpern, "What the fuck? Do you want to finish singing this song for me or what?" The two men exchanged more words, and according to Halpern's statement to the police, "He ran swinging his guitar and smashed me in the head from behind. I grabbed my head in pain and saw the blood." A bigger bar fight ensued, and in the end, Halpern said, he "was being choked from behind" by the band's conga player. Perez managed to avoid jail by entering a pre-trial diversion program. [115]

On the 2011 and 2012 questionnaires, Perez allegedly checked the "no" box when asked if he had faced criminal arrests or charges. Perez also failed to disclose his Wisconsin conviction in a 2012 court filing seeking to get his Miami arrest expunged. Perez told the Miami Herald that if he failed to fill out any forms correctly it was an "honest mistake."[116]

Authorities apparently discovered Perez's alleged misdeeds while examining Perez's relationship with Steve Bateman, former mayor of Homestead, FL, who was arrested in August 2013 and charged with corruption. Bateman's wife, a real estate agent, received a commission for a land deal in which Homestead sold city property to Perez's Dade Medical College at a suspiciously deep discount.

More than 25 percent of Dade Medical students default on their student loans within three years of graduating or dropping out. The *New Times* talked with a Dade Medical student who said, "I don't know how they are still in business. The teachers aren't prepared for class, and the

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[115] http://www.bizjournals.com/southflorida/news/2013/06/25/controversy-grows-around-dade.html?page=all; http://www.miamiherald.com/2013/10/26/v-fullstory/3713875/troubled-past-casts-cloud-over.html

[116] http://www.miamiherald.com/2013/10/18/3697903/dade-medical-college-ceo-accused.html

administration is a mess." Another added, "The professors are inexperienced and disorganized. You are basically on your own."[117]

Yet for some members of Congress, none of this misconduct and failure seems to matter. All that may matter are financial contributions from for-profit executives like Benjamin,Perez, and Leeds.

All that money may have contributed to the House of Representatives passing a bill in February 2011, by a vote of 289 to 136, to approve an amendment to block the Obama Administration from issuing a gainful employment rule. Every single House Republican voted for the amendment to undermine President Obama's initiative, as did 58 House Democrats, including their leader, Nancy Pelosi, who is a friend of the University of Phoenix's John Sperling.[118] (The Senate did not approve a similar measure, and the bill never became law.)

The Washington Post's Kaplan

Perhaps the most effective lobbyist for the for-profit colleges was Donald Graham, CEO of the Washington Post Company, which obtained 55 percent of its revenues from its Kaplan education subsidiary, which was, in turn, dominated by the Kaplan for-profit college. By the time of a long, tortured 2011 *Post* newspaper investigation of how Kaplan had come to dominate the company, the paper could report, "The Post Co. now calls itself an education and media company -- no longer the other way around."[119]

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[117] http://www.browardpalmbeach.com/2013-08-29/news/dade-medical-college-has-powerful-friends-but-struggling-students/
[118] http://www.sfgate.com/bayarea/matier-ross/article/Nancy-Pelosi-joins-GOP-on-for-profit-college-aid-2375428.php
[119] http://www.washingtonpost.com/business/the-trials-of-kaplan-higher-ed-and-the-education-of-the-washington-post-co/2011/03/20/AFsGuUAD_story.html

Don Graham invested his time and reputation in pushing back against the gainful employment rule.[120] Meeting with Obama officials, Members of Congress, and members of the public policy community, Graham insisted, as did other industry lobbyists, that the proposed rule would deny low-income students important educational opportunities, because it would force schools like Kaplan to stop taking chances on students who might be unable to repay their loans. As APSCU CEO Steve Gunderson recently put it, "What they're really saying is that if you are poor, you can't go to school."[121]

At a February 2014 meeting at the White House, APSCU lobbyists handed Obama Administration officials a document warning that the gainful employment rule will "deny access to nearly 2 million students."[122] But the question is, access to what? If a gainful employment rule ultimately prevents some students from enrolling in programs that will leave them worse off than when they started, that is a good thing. That is what the gainful employment provision that Congress enacted intends, and that's what the regulation implementing that law should do.

The failure of these schools to help students is not, as they often claim, because of the socio-economic status of the students they admit. It's because of the high prices, unscrupulous admissions practices, poor quality, and weak placement efforts of their schools. APSCU's own study (when it was still called the Career College Association) concluded that even after accounting for differences in demographics, students attending for-profit colleges are at least twice as likely to default as students at

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[120] http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html

[121] http://www.boston.com/news/local/massachusetts/2014/01/25/call-for-oversight-mass-for-profit-colleges/fIOqEKvzRNuaSoulY22FQI/story.html

[122] http://www.whitehouse.gov/sites/default/files/omb/assets/oira_1840/1840_02102014b-1.pdf

public and non-profit colleges.[123] An Education Trust study concluded that at colleges where generally all applicants are admitted, the graduation rate at 4-year for-profit colleges (11%) was about three times lower than the rates at public and non-profit 4-year colleges (31% and 36%, respectively).[124] A June 2012 paper from the National Bureau of Economic Research, authored by Boston University Professor Kevin Lang, found that "even after controlling for an extensive set of background variables, students at for-profit institutions do not benefit more and often benefit less from their education than apparently similar students at not-for-profit and public institutions."[125]

Graham and his fellow lobbyists also claimed that the gainful employment rule was unfair because it only covered for-profit colleges. But that wasn't true – the rule applied to all post-high school career training programs. This argument by for-profit colleges was like bank robbers complaining that the bank robbery laws only applied to them. For-profit colleges were the ones at risk of losing their federal aid simply because they were the ones putting students at risk.

But for top Washington leaders, Graham was a local titan, a pillar of the community, someone known for his work with the D.C. public schools, someone who attended the same social functions as them -- someone they could trust. And whether he intended or not, Graham's entreaties must have seemed to some officials to come with an implied threat -- cross the Post and risk the wrath of our investigative and editorial arms.

Kaplan spent $1.36 million on lobbying Congress in 2010-11, and that would not even include any funds spent on consultants, like Anita Dunn, who did not register as lobbyists, or any contributions to the ubiquitous advertising against the rule.

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[123] http://www.republicreport.org/wp-content/uploads/2013/11/CCA-study-on-default-rates-controlling-for-demographics.pdf

[124] http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf

[125] http://www.nber.org/papers/w18201

Graham's assurances that Kaplan was doing good work by admitting underserved students was belied by the facts. It was easy for Kaplan and other for-profit colleges to enroll these students and deposit their federal checks. But admitting students deserved no commendation if it wasn't accompanied by strong efforts to train the students for productive careers. And by most accounts, Kaplan fell short in that regard. While Graham's august presence led many fancy Washingtonians to believe that Kaplan was, amid a sea of shady for-profit college operators, "one of the good ones," the record showed otherwise.

Training documents that investigators obtained from Kaplan told recruiters to manipulate students: "Keep digging until you uncover their pain, fears and dreams" and "Get to their emotions and you will create the urgency!" And, "If you can help them uncover their true pain and fear, if you get the prospect to think about how tough their situation is right now, if you talk about the life they can't give their family right now because they don't have a degree … you dramatically increase your chances of enrolling this prospective student." [126] Kaplan's CEO, Andrew Rosen, told me these were "draft documents… never in general circulation … . created by outside firms. In at least one case they were used by one small group as a test, but … that never represented the way Kaplan trains people."[127]

An investigation by Huffington Post reporter Chris Kirkham found that Kaplan campuses engaged in a practice they informally called "guerrilla registration" -- enrolling students in classes they never attended, never even signed up to take – in order to maximize revenues.[128] (Kaplan denied this charge also.[129])

Kaplan, which receives about 90 percent of its revenue from federal student aid, has recently been under investigation by at least four

[126] http://www.huffingtonpost.com/2012/01/12/for-profit-colleges-kaplan-university_n_1202583.html
[127] http://www.republicreport.org/2012/gates-wapo-kaplan/
[128] http://www.huffingtonpost.com/2010/12/22/kaplan-university-guerilla-registration_n_799741.html
[129] http://www.huffingtonpost.com/jeff-conlon/post_1533_b_805952.html

state attorneys general, from Florida, Illinois, Massachusetts, and North Carolina.[130]

According to the Senate HELP committee staff of Senator Tom Harkin, 68-69 percent of Kaplan students drop out before graduating.[131] Of the top ten recipients of post-9/11 G.I. bill benefits (including eight other for-profits like DeVry, ITT, and University of Phoenix), Kaplan had the worst overall dropout rate. (Rosen told me that in fact Kaplan programs "have had much higher graduation rates than other programs serving comparable students.")

In recent years, the percentage of Kaplan students who default on their student loans within three years of graduating or dropping out is 27.8 percent -- one of the highest default rates for a publicly-traded for-profit college. Seventy-three percent of Kaplan students' loans are not being paid down.[132] Programs at Kaplan College and Kaplan Career Institute were among those for-profit colleges that flunked the initial test of even the watered-down Obama "gainful employment" rule, meaning, for starters, that two-thirds of the students in those programs were unable to pay back their loans.[133]

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[130] http://californiawatch.org/data/state-attorneys-general-investigating-profit-colleges; http://articles.sun-sentinel.com/2012-10-31/news/fl-keiser-attorney-general-20121031_1_federal-student-kaplan-university-keiser-university; http://web.archive.org/web/20120402031850/http://www.charlotteobserver.com/2012/02/01/2974937/college-reimburses-students-after.html ; http://www.boston.com/news/local/massachusetts/2013/02/04/attorney-general-martha-coakley-investigating-more-than-for-profit-schools-massachusetts/v5qTyei1UC1o2yHzKqVfXO/story.html

[131] http://unitedrepublic.org/wp-content/uploads/2012/01/HELP-Committee-Presentation.pdf

[132] http://www.nytimes.com/2010/08/14/education/14college.html

[133] http://www.republicreport.org/2012/romneys-full-sail-washposts-kaplan-among-colleges-flunking-federal-test/

In 2012, Kaplan's branch in Charlotte, NC, surrendered its state license to run a dental assistant program after students asserted that officials told them, falsely, that the program would earn them appropriate credentials for the jobs they sought. One student, Tiffany Nesbitt, told a Charlotte TV station that Kaplan staff "told me they were in the process of becoming … accredited, that it was already in the making, that they would be accredited by the next month," Nesbitt said. It turned out, however, that the school had never even applied for the appropriate accreditation.[134] Once exposed, Kaplan agreed to give the students their money back. But it didn't compensate them for wasting months and years in a useless program.

For building up the company capable of this kind of performance, Kaplan's CEO, Jonathan Grayer, received a $76 million compensation package when he left in 2008.[135] When in 2012 Representative Elijah Cummings (D-MD) asked for-profit colleges to disclose the salaries of top executives, Kaplan/The Washington Post Company refused.[136] The Post's explanation for declining to tell the congressman what its current CEO, Rosen, earned? Because the Post was not required to disclose such information about Kaplan, a wholly-owned subsidiary, to the Securities and Exchange Commission. Never mind that nine out of every ten dollars obtained by Kaplan higher education came from taxpayers. Never mind that the Post newspaper had a long history of demanding accountability for institutions living off taxpayer money.

The Post Company also has in recent years owned between 6.6 percent and 8 percent of Corinthian Colleges[137], a for-profit education company that, as discussed below, has an even worse record.

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[134] http://www.wsoctv.com/news/news/whistleblower-9-students-say-they-were-misled-by-l/nGSy3/
[135] http://www.ft.com/cms/s/0/0cdd851e-b6a5-11dd-89dd-0000779fd18c.html#axzz2rAb9XEpv
[136] http://www.republicreport.org/2012/the-washington-post-wont-tell-congress-how-much-money-kaplans-ceo-makes/
[137] http://www.benzinga.com/news/13/04/3545345/amended-13d-filing-from-washington-post-on-corinthian-colleges-showing-reduced-6-; http://www.washingtonpost.com/business/economy/the-washington-

In addition, documents that I obtained in 2012 revealed that Kaplan was a member of the American Legislative Exchange Council (ALEC), the controversial business group that has lobbied for, among other things, Voter ID laws, which make it harder for low-income people, people of color, young people, the elderly, and the disabled to vote, and the Stand Your Ground laws that drew scrutiny after George Zimmerman killed Trayvon Martin.[138] Other members of ALEC from the for-profit college sector included Corinthian, Bridgepoint, and the trade association APSCU. The Post Company, whose CEO was proclaiming around Washington that Kaplan was committed to aiding the disadvantaged, was supporting an organization that was actively harming such communities. The *Post* failed to disclose in its news coverage of ALEC and Trayvon Martin that Kaplan was an ALEC member.[139]

Meanwhile, the pages of the *Post* featured op-eds by the likes of National Urban League President Marc Morial and Democratic consultant Bill Knapp supporting for-profit colleges, without disclosing the authors' financial connections to the industry. The *Post* also ran, in 2012, an enthusiastic review by Microsoft chairman Bill Gates of *Change.edu*, a book on higher education authored by Andrew Rosen. A book by Kaplan's CEO on higher education was like a book on energy policy by Montgomery Burns. But Gates lauded Rosen for making "a persuasive case" that traditional colleges were doing a poor job serving non-traditional students. Gates found Rosen's "insights truly important." While Gates acknowledged that there are critics of the for-profit education sector, and he offered one mildly critical comment of his own, saying that "for-profit schools must do better at graduating students with a degree that is

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post-co-reported-a-two-thirds-drop-in-first-quarter-earnings/2011/05/06/AF3fsN7F_story.html
[138] http://www.republicreport.org/2012/wash-post-kaplan-alec/
[139] http://www.republicreport.org/2012/has-the-washington-post-companys-membership-in-alec-affected-its-reporting/

valuable in the marketplace," he concluded that Rosen did "an effective job" rebutting the critics of his industry.[140]

Gates' review of Rosen's book offered what he called "full disclosure" — that Gates' wife, Melinda, served on the Washington Post Company board from 2004 to 2010. But there was, in fact, more to disclose: The Bill and Melinda Gates Foundation had a stake in the success of Kaplan. Warren Buffett's Berkshire Hathaway, Inc. was by far the largest institutional owner of Post company stock, with a 20.5 percent share. In 2006, Buffett pledged ten million shares of Berkshire Hathaway, then worth $31 billion, to the Gates Foundation, donated over time. Thirty-eight percent of the entire Washington Post Company's $4.72 billion revenue for 2010 came from Kaplan's higher education component.

Former Kaplan employees have said they were trained to inform prospective students that Kaplan was owned by the respected Washington Post company and that Warren Buffett and Melinda Gates served on the board. (Kaplan officials have denied that recruiters were so trained.)[141]

When I wrote a couple of times in 2012 to *Washington Post* ombudsman Patrick Pexton, linking to my articles that questioned the *Post*'s conflicts of interest in covering the for-profit college industry, Pexton finally wrote back, "I read both of these with interest, and I hope to address Kaplan in a future column." As far as I know, Pexton never did. He left the paper, and the Post abolished his position.

The public controversy over Kaplan's record drained some of the prestige and good will from the long-respected Post Company and its pioneering Meyer/Graham family, whose accomplishments include

[140] http://www.washingtonpost.com/entertainment/books/changeedu-rebooting-for-the-new-talent-economyby-andrew-s-rosen/2011/12/09/gIQAvLHjEQ_story.html
[141] http://www.bloomberg.com/news/2010-11-01/kaplan-quest-for-profit-at-taxpayer-expense-ensnares-disabled-u-s-veteran.html; http://www.nytimes.com/2010/11/10/education/10kaplan.html?pagewanted=all

building the paper into an investigative juggernaut under Katharine Graham during the Watergate era.

In 2013, Graham's company sold the *Washington Post* newspaper to Amazon CEO Jeff Bezos but kept the Kaplan business for itself.[142] By December 2013, Graham was reporting that Kaplan student enrollment in the U.S. had been reduced from 119,000 four years earlier down to 65,000. Warren Buffett announced in February 2014 that he was exploring means to divest his $1.1 billion stake in the company, now called Graham Holdings Co. Kaplan said it was increasingly focused, like the University of Phoenix and another U.S. chain, Laureate Education, on expanding for-profit colleges overseas – Europe, South America, and elsewhere. Commenting on these plans, one investor told *Bloomberg Businessweek*, "Outside the U.S., it's a wide-open area to run in without as much scrutiny." But Graham was still presenting his mission as helping the needy: "Most of the students we were serving are the nation's poorest and no one is serving them now."[143]

The gutting of gainful employment

When it came to lobbying against the gainful employment rule and other accountability measures, one more powerful force was in the mix: large financial institutions, some of the most relentless and influential lobbying forces and campaign donation machines in Washington. The companies making the most money off student loans include most of America's biggest banks: Citi Student Loans, Wells Fargo, Bank of America, JP Morgan Chase, along with the number one student loan company Sallie Mae. For years Sallie Mae and the big banks made huge profits issuing federally-guaranteed student loans, getting federal subsidies while the

[142] http://www.huffingtonpost.com/davidhalperin/bezoss-purchase-of-the-po_b_3714431.html
[143] http://www.businessweek.com/news/2014-02-13/graham-holdings-looks-abroad-for-future-without-buffett-and-post; http://www.washingtonpost.com/business/laureate-a-for-profit-education-firm-finds-international-success-with-a-clintons-help/2014/01/16/13f8adde-7ca6-11e3-9556-4a4bf7bcbd84_story.html

taxpayers were in the fact the ones who bore the risk of defaults. Desperate to cut the deficit, Congress finally stopped listening to the bank lobbyists and eliminated that enormous, perpetual windfall in 2010; now the government makes those loans directly. But Sallie Mae and the banks continue to make big money servicing the loans.

More importantly, these companies earn huge profits in the lucrative private student loan market, with particularly strong revenues coming from the for-profit colleges, who are eager to partner with lenders to share in the riches and to improve their chances at federal 90/10 rule compliance. Some of the banks have an even more direct interest in the gainful employment fight: Goldman Sachs owns 41 percent of EDMC, while Wells Fargo is the largest institutional investor in Corinthian Colleges, with a 20 percent stake.

The industry also gave its students incentives to lobby against reform. The for-profit colleges lobby group APSCU held "Hill Day" in Washington, for which they provided all-expenses-paid trips to students who were willing to sing the praises of their schools and oppose the gainful employment rule in meetings with Members of Congress. At one of these events in March 2011, students attended a panel on "grassroots advocacy." One speaker was Dawn Connor of Students for Academic Choice, which was presented as a "successful campus student association." But Students for Academic Choice was in fact an "astroturf" organization set up by APSCU.

APSCU handed the students documents, which my associates soon obtained, offering students advice on dealing with pesky reporters, who might ask questions about default rates:

- Should a reporter ask if or how much debt you incurred at a career institution, you can firmly but politely reply: "I made an adult decision to invest in my education and I am confident in my ability to meet my financial responsibilities."
- Should the reporter continue to push the debt point, you can politely but firmly reply: "I have answered that question, and am happy to talk more about how my degree/diploma/certificate has enhanced my career prospects."

- To the question of high-pressure recruitment, the student could reply: "My decision to choose a private sector college was made after I had considered other options. It was my choice, and I made it based on several factors, not solely on any contact with recruiters."

While APSCU was training these students to stonewall reporters, for-profit college owners and executives were attending their own lobbying sessions with Members of Congress, and internal meetings. One lobbyist, former congressman Vic Fazio, rallied the execs by comparing Senator Tom Harkin's efforts to reign in for-profit colleges to a "jihad." Fazio's remark was reported on Twitter by the editor of the website Career College Central, and then retweeted by APSCU's official Twitter account.[144]

Most lower-level for-profit college staff didn't get a free trip to DC, but they were directed by their supervisors to also contact Congress. The Washington public relations and astroturf firm DCI Group later bragged on its website about how it helped EDMC with its effort: "DCI's recent work has included a campaign mobilizing employees of the Education Management Corporation against a proposed regulation focused on for-profit colleges It was one part of an overall industry effort that resulted in more than 90,000 comments being received by the Department of Education, more than for any previous rule."

Meanwhile, students who had been mistreated by for-profit colleges -- Mike DiGiacomo, Amber Morgan, and all the others across America -- mostly felt too disempowered, or too ashamed, and were, more to the point, too broke, to come to Washington to tell their stories. Our coalition didn't have the money to bus students in.

Campus Progress did pay for one former ITT Tech student, and one former ITT Tech staffer, to come to Washington, speak out and meet with

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[144] http://genprogress.org/voices/2011/03/08/16434/lobbyist-for-forprofit-college-likens-senator-harkins-efforts-to-ji/; http://www.boston.com/news/education/higher/articles/2010/06/13/lobbyists_aid_for_profit_college_student_group/

some congressional staffers. No Members of Congress whose offices we visited would make themselves available. The ITT staff member was Rashidah Smallwood, discussed above, who says she was fired by ITT after she refused to falsify financial aid documents.

The ITT student was Adam Gonyea, a Navy veteran who told of ITT's relentless effort to sign him up for an information technology program. Adam said he was convinced to sign up when the recruiter explained that ITT's national accreditation was "superior" to regional accreditation -- a highly misleading statement. Gonyea said the high cost -- $36,000 for 18 months -- "did not seem to go toward a quality education." The school used outdated equipment, sometimes used pirated software, and had many instructors who didn't seem to care. "I came to suspect that one of my instructors was not actually grading my homework," he said. "I confirmed this suspicion by placing notes in my reports and projects inviting the reader to confirm that they were actually reading what I wrote. Without fail if I turned in anything with my name spelled correctly I was guaranteed an A+!" As a result of what Gonyea termed "administrative ineptitude," ITT dropped him from this program. He said the school then sent bills overcharging him by $3300. He concluded: "I regret attending ITT Tech. The institution provided at best an absolute minimum education and left me with nearly insurmountable debt."[145]

The voices of students like Adam Gonyea were compelling, but they just weren't loud enough. The for-profit colleges could afford the megaphones and the lobbyists with connections to see the Members of Congress who shut their doors on Adam and Rashidah.

In the face of all the lobbying by for-profit colleges, the Administration in June 2011 issued a final "gainful employment" rule that was heavily watered down, with extremely low standards.

The gutted rule would have removed a career training program, whether at a for-profit, non-profit, or state school, from federal aid

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[145] http://genprogress.org/about/press/2011/02/17/19003/testimony-of-adam-gonyea-veteran-and-former-forprofit-college-student/

eligibility only if it failed all three of these tests three years in a row: (1) at least 35 percent of former students are repaying their loans (defined as reducing the loan balance by at least $1); (2) the estimated annual loan payment of a typical graduate does not exceed 30 percent of his or her discretionary income; and (3) the estimated annual loan payment of a typical graduate does not exceed 12 percent of his or her total earnings.

These tests seemed ridiculously lenient -- if two-thirds of your former students can't pay back their loans for several years in a row, should taxpayers keep funding your "career" college?[146]

Cass Sunstein, the White House officials who oversaw federal rulemaking, insisted to the *New York Times* that the industry's "haranguing had zero effect."[147] But it was hard to understand how a serious effort, based on a serious problem, had produced such a weak outcome.

It may well be that the final rule was *not* seen by White House officials as a starkly cynical sellout crafted under political pressure. But they may have seen it as the toughest measure that they would have been able to make stick. A truly meaningful rule, one that actually provided reasonable protection to students, might have cut off federal aid to the majority of programs at the big for-profit colleges, leading to major disruptions – students who could no longer attend their programs, thousands of faculty and staff laid off, and resulting public relations campaigns by the for-profit colleges portraying the Administration as reckless.

In short, with slick efforts by GOP consultants and corporate foes of the White House, it could have been painted as another Obamacare, as a massive government overreach, as an anti-business misstep that could have politically harmed Democrats. Members of Congress, even friendly Democrats, may have warned of these consequences, warned about a late-

[146] http://www.ed.gov/news/press-releases/gainful-employment-regulations
[147] http://www.nytimes.com/2011/12/10/us/politics/for-profit-college-rules-scaled-back-after-lobbying.html?pagewanted=all

night amendment to overturn gainful employment, and humiliate the Administration.

But any such friends of the Administration were simply channeling the message of industry lobbyists. With big for-profit colleges getting 80 to 90 percent of their revenues from federal aid, their sector is not a free market effort; it's a government program. And the question facing the Obama Administration was, and is, should this government program have rules that permit rampant waste, fraud, and abuse with taxpayer dollars, or should it have rules that motivate recipients of government aid to compete by truly helping students train for careers?

Any version of the gainful employment rule would have eased in its reforms, giving companies time to adjust their behavior, and students time to adjust their plans.

And when considering the balance of harms, it was imperative that the Administration consider not only the potential disruptions to for-profit college companies, but also the harm every academic year when some 300,000 students enroll in for-profit colleges, many in programs that will leave them worse off. Higher education advocates thought the Administration owed it to students to take a strong stand.

Thus some advocates denounced this final rule as a sellout to industry. Others, however, including me, were disappointed but willing togive the rule a chance, believing that, in concert with other measures to curb this industry, the gainful employment regulations might make a difference.[148]

Data released by the Department of Education in 2012 under a test run of the gainful employment rule showed that the regulation, once implemented, could have some real bite: 65 percent of the programs tested failed at least one of the three minimal tests aimed at protecting students, and five percent -- 193 programs at 93 different for-profit colleges, including Kaplan, EDMC, CEC, and Corinthian -- failed all three

[148] http://genprogress.org/voices/2011/06/03/16697/why-did-forprofit-college-stocks-rise-after-the-gainful-employment-ru/

tests. Persistent flunking could have eventually removed from eligibility for federal aid, and thus put out of business, such programs.[149]

In fact, the rules appeared to be pressuring some for-profit colleges to moderate their bad behavior -- shutting down some of their worst programs, curbing their ever-escalating tuition charges (including at perennial over-chargers University of Phoenix, EDMC, and Bridgepoint), declining to admit some students who have little chance of succeeding in a given program, and offering students trial periods before finally depositing their government aid checks.

But the industry didn't want to do those things. It wanted to ensure that its members would not be measured at all in terms of these outcomes for students. So its trade association, APSCU, hired some of the most expensive lawyers in Washington, from the firm of Gibson Dunn, to overturn Obama's regulations in court. These lawyers persuaded a federal judge in Washington to throw out the regulation. U.S. District Judge Rudolph Contreras ruled that the administration had the authority, and clear justification, to issue the rule: "The Department has set out to address a serious policy problem, regulating pursuant to a reasonable interpretation of its statutory authority....Concerned about inadequate programs and unscrupulous institutions, the Department has gone looking for rats in ratholes -- as the statute empowers it to do." But the judge found that the administration had failed to adequately explain its reasoning for one of the rule's three threshold tests -- the requirement that at least 35 percent of former students are repaying their loans.[150]

Encouragingly, the newly re-elected Obama Administration did not give up the fight. The Department of Education launched a new round of rule-making sessions in fall 2013, and it initially offered draft rules that

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[149] http://www.republicreport.org/2012/romneys-full-sail-washposts-kaplan-among-colleges-flunking-federal-test/

[150] http://www.nytimes.com/2012/07/02/education/judge-strikes-a-for-profit-college-regulation.html, http://www.insidehighered.com/news/2013/03/21/gainful-employments-future-uncertain-after-court-ruling

got tougher on bad actors in the industry.[151] Again the focus of the rule was on penalizing schools whose graduates and dropouts were not earning enough money to pay down their loans.

Rep. Virginia Foxx, the House education sub-committee chair who has accepted so much campaign cash from for-profit colleges, made an unusual appearance at a negotiated rulemaking session, held in a cramped conference roomon K Street. She declined the opportunity to address the meeting, but she had made her presence known.

On the eve of final stakeholder talks on the rule, the Administration again shifted to a much weaker gainful employment rule. At the session, a negotiator representing for-profit colleges, while declining to endorse the latest draft, said he was "pleased" with the direction the Department had taken.

Comparing this draft of the gainful employment rule with data on industry performance, it appeared that 13 percent of current career education programs would be at any risk of losing eligibility for federal aid, and no school would face penalties until 2018.[152] That's far too lenient. Far more than 13 percent of current programs are bad for students and are unworthy of taxpayer support. The major for-profit college companies -- including Apollo / University of Phoenix, EDMC, Kaplan, ITT Tech, CEC, DeVry, Corinthian -- disserve and abuse a significant percentage of their students. They cannot expect a permanent entitlement to federal money, without regard to how they perform.

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[151] http://www2.ed.gov/policy/highered/reg/hearulemaking/2012/gainfulemployment.html

[152] http://www.insidehighered.com/news/2013/12/16/feds-move-next-step-gainful-employment-negotiations-end-stalemate

Our coalition of organizations released a detailed memo outlining how the rule needs to be strengthening in order to adequately protect students. [153]

But once again it appeared that the for-profit college industry was leaning on Congress to pressure the Administration to back down. They enlisted Thomas Donahue, the powerful head of the corporate lobby the U.S. Chamber of Commerce, to include, in his annual State of American Business address, an attack on gainful employment. Speaking in January 2014, Donahue pledged "to do everything we can to change or stop the rule as it is currently written."[154] Adding the Chamber's muscle to the debate increased the threat that the industry would try to paint a tough gainful employment rule as a job-killing overreach.

The industry also renewed its astroturf efforts. APSCU geared up for another "Hill Day" in March 2014, bringing students, as well as executives, to lobby against reforms. EDMC, by now the subject of mounting federal and state investigations, sent an email to staff asking them to become lobbyists for the cause by sending messages to the Obama administration and Congress. The email, which I obtained from an EDMC staffer, contained a link to a colorful website that helps staff and students write and send their messages opposing the gainful employment rule. Although by now many EDMC current and former students and staff have said they would like to see more, not less, accountability for schools like theirs, EDMC continues its efforts to enlist these people to serve the interests of management. [155]

Steve Gunderson and APSCU kept up their bombastic attacks on the regulation, and their claim that the Administration had an ideological objection to for-profit education; APSCU charged that negotiators chosen

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[153] http://www.protectstudentsandtaxpayers.org/wp-content/uploads/2014/02/Coalition_letter_to_President_in_support_of_GE_sent_Feb_4_2014.pdf
[154] https://www.uschamber.com/speech/state-american-business-2014-remarks-thomas-j-donohue-president-and-ceo-us-chamber-commerce
[155] http://www.huffingtonpost.com/davidhalperin/embattled-for-profit-coll_b_4761023.html

by the Department of Education for the rulemaking were "opposed to the very existence of our institutions."[156]

Two of the industry's best paid friends on Capitol Hill, Representatives Hastings and Andrews, tried to enlist fellow Democrats to sign a letter asking the Administration not to issue any gainful employment rule. Even worse, other key Members of Congress, while not publicly asking the administration to change course, may have again quietly urged the White House not to go too far.

The cause of holding for-profit colleges accountable has some great champions on Capitol Hill, including Representatives Elijah Cummings (D-MD), Keith Ellison (D-MN), and Maxine Waters (D-CA), and Senators Durbin and Harkin. And there have been indications in the past few years that some members of Congress who may feel obligated to do what their for-profit college donors ask are somewhat reluctant now to be seen by the public as doing so. With greater public awareness of for-profit college misconduct, these members seem concerned about being seen advancing the interests of wealthy, predatory education companies when they should instead be standing with the veterans, single mothers, and others in their districts who have been deceived and abused by these schools.

In 2012, Congressman Marlin Stutzman (R-IN), chairman of the subcommittee overseeing veterans' education, cancelled an appearance at an event focused on education benefits for veterans that was scheduled at a for-profit college campus in his district, after a local newspaper noted that the school, National College, was under investigation and asserted that Stutzman's attendance at the event "looks like more of an endorsement of National College than a message to veterans to thoroughly review their options before signing on with a for-profit school." The owner of National College has been a major donor to Republican candidates. When I called Stutzman's office to ask if he was still planning to attend,

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[156] http://www.career.org/news-and-media/press-releases/proposed-ge-regulation-puts-thousands-at-risk.cfm; http://www.boston.com/news/local/massachusetts/2014/01/25/call-for-oversight-mass-for-profit-colleges/fIOqEKvzRNuaSoulY22FQI/story.html

they emailed me a statement saying he would not be; they declined to tell me why.[157]

Meanwhile, the letter that congressmen Hastings and Andrews wanted their fellow Democrats to sign in late 2013 was eventually watered down to drop the demand that the White House forego a gainful employment rule; instead the letter just asked the Administration for more data, and it was sent on a Saturday morning, when no one was paying attention.[158]

Despite these signs that members are now worried about being seen carrying water for for-profit colleges, the Republican caucus in the House, a good number of House Democrats, and some Senators continue doing the bidding of these demanding donors, and they press the Obama Administration to do the same. Their efforts may still end up having a strong impact on the new gainful employment rule.

There's a word for this state of affairs -- corruption.

There doesn't have to be an explicit quid pro quo. The congressional recipients of the money support the interests of the donors; it's understood. Why else would free market, small-government Republicans oppose efforts to hold accountable companies that receive most of their revenue from federal billions? Why else would Democrats oppose protecting hard-working low-income and middle-class Americans from frauds committed by predatory corporations?

And it is a perpetual cycle of corruption, systemic corruption, because, as noted, it's federal money that allows for-profit colleges to buy federal influence.

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[157] http://www.republicreport.org/2012/stutzman-national-college/
[158] http://www.huffingtonpost.com/davidhalperin/house-dems-backing-for-pr_b_4453595.html

Corinthian, Phoenix, and the effort to hold for-profit colleges accountable

One reason that for-profit colleges have been able to act with near-impunity is that the principal federal agency overseeing them, the U.S. Department of Education, has not been a tough enforcer of the law, when what is needed is a tenacious watchdog protecting student and taxpayer interests.

Even without a gainful employment rule, the Department has some useful regulations on the books: (1) the cohort default rate rules (CDR) that remove from federal aid eligibility those schools whose students default on their loans in high numbers; (2) the 90/10 rule that bars colleges from obtaining more than 90 percent of their revenue from federal aid; and (3) a prohibition on colleges engaging in "substantial misrepresentation" about program costs, placement rights, and other issues.

Within the Department of Education, higher education enforcement is the responsibility of the compliance unit of the Office of Federal Student Aid (FSA). Robert Shireman, a long-time friend and colleague of mine who served in President Obama's first term as Deputy Under Secretary of Education, is now strongly critical of FSA's failure to effectively enforce the rules. In 2013, the Department's Inspector General reported that FSA takes the position that it has no authority to use for oversight purposes the reports that schools make to the Department on their expenses. This narrow view suggests FSA's overall reluctance to get tough on bad actors.[159]

Shireman, who was instrumental in Obama Administration efforts to reform the student loan system and hold for-profit colleges accountable, told me that FSA "should be taking these numbers and raising questions about whether colleges are violating 90/10 or CDR, or

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[159]

http://www2.ed.gov/about/offices/list/oig/auditreports/fy2013/a09l0001.pdf gaming them in a way that should lead them to alert consumers to questionable conduct." FSA also could better share information with other government agencies, so that, for example, the FTC would know more about student complaints of misrepresentation andthe Department of Veterans Affairs would know if veterans are taking out student loans when they could be using veterans benefits.

The Department's apparent lack of enthusiasm for enforcement is particularly worrisome given the growing evidence that for-profit colleges have been gaming the system to technically comply with the regulations in place.

As noted above, for-profit colleges appear to be evading the 90/10 rule by merging campuses. Another trick employed by some schools, including by EDMC, is to offer their own employees scholarships to attend their own company's schools, and then counting that scholarship aid as non-federal money.

The situation is just as worrisome with respect to student default rate requirements. In 2012, the Institute for College Access and Success (TICAS) released evidence that major for-profit colleges are "artificially keeping their cohort default rates below the thresholds" for losing their eligibility for federal aid. Schools were pressuring students to put their loans into "forbearance" status, meaning the loan was technically not in default, but interest continued to mount. As with 90/10, schools also appeared to be combining multiple campuses into a single reporting unit in order to mask the disqualifying default rate of one of them.[160] A year later, the Department of Education released new default rate data; the research firm Height Securities concluded that for-profit colleges continue to engage in heavy default rate manipulation.[161]

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[160] http://www.ticas.org/files/pub/TICAS_memo_on_CDR_evasion_082112.pdf

[161] http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr2yr.html

Finally, the Department of Education has on the books detailed regulations that give it the authority to end or limit a school's eligibility for student financial aid if the school engages in substantial misrepresentation about its programs, costs, or job placement capacities.[162] Yet there is little sign that the Department actively enforces these rules.

Fortunately, Department of Education rules and enforcement, while extremely important, aren't the only means of curbing predatory for-profit colleges.

By early 2014, a range of federal enforcement agencies, from the FTC to the SEC, the Justice Department to the CFPB, had awoken to the threat and were investigating and issuing warnings to the industry. The CFPB and SEC were each actively investigation at least two schools – Corinthian and ITT. The Justice Department had an ongoing whistleblower case against EDMC and had opened an investigation of Corinthian. The FTC was probing DeVry. Acting on an executive order issued by President Obama, the Departments of Defense and Veterans Affairs and the FTC had stepped up protections for troops and vets against recruiting abuses.

As noted, a bipartisan group of state attorney generals had been on the case for several years. They were probing fraud and deceptions by a wide range of for-profit schools, large and small, and filing lawsuits. And the January 2014 disclosures of new multi-state probes of CEC, Corinthian, EDMC, and ITT suggested an escalation of these efforts.

All of this activity seemed less susceptible to congressional interference, although it was still possible that the industry's expensive lawyers and political connections could weaken or halt even these efforts.

Not long after New York's attorney general forced concessions and restitution from Career Education Corp., California's attorney general,

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[162] http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=c0dc33f1d862ebe8eeabcefb773c8428&rgn=div6&view=text&node=34:3.1.3.1.34.6&idno=34

Kamala Harris, sued Corinthian Colleges, one of the largest for-profit college companies, and long one of the most irresponsible actors in the field. Harris charged that Corinthian, which operates Everest, Heald and WyoTech colleges, engaged in "false and predatory advertising, intentional misrepresentations to students, securities fraud and unlawful use of military seals in advertisements." Corinthian purportedly lied about its graduates' job placement rates, among other things, to prospective students, investors, and accrediting agencies.[163]

Five years earlier, Corinthian had paid $6.6 million to settle similar claims by then-California AG Jerry Brown. In retrospect, it appears that Brown (now California's governor), who had close personal and fundraising ties to Corinthian's lead law firm, giant Manatt, Phelps, made a deal that ultimately let Corinthian off easy, and that afterwards Corinthian did not fundamentally change its ways. [164]

According to internal company documents cited by Attorney General Harris's complaint, Corinthian's recruiters and its ubiquitous ads on TV shows like "Jerry Springer" aimed to push its programs to "isolated," "impatient" single parents with "low self-esteem" who are "stuck" and "unable to see and plan well for the future."

Selling Corinthian's colleges to these students as schools whose graduates found great jobs was a stretch. The company was publicly claiming placement rates for programs as high as 100 percent, and 68 percent overall. Corinthian's CEO, Jack Massimino, publicly told investors in March 2013:

> We have done a pretty remarkable job in terms of placement.... We're very tight on our definitions. And so if you're a medical assistant, for example, with us and you get a job at a doctor's or the hospital, those count. If you get a job as an aide at a nursing home, that does not count even though you're making $10 to $12 an hour.

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[163] https://oag.ca.gov/news/press-releases/attorney-general-kamala-d-harris-files-suit-alleged-profit-college-predatory
[164] http://www.newrepublic.com/article/116147/corinthian-colleges-lawsuit-jerry-brown-settled-will-kamala-harris

But the facts told a very different story. Internally, Massimino was telling his staff, "We have a placement compliance problem now." Corinthian management repeatedly admitted in inter-office memos that the company had no consistent definition for what constituted a placement. Corinthian fudged the numbers using such tricks as counting as permanently placed students who were hired by a Corinthian partner to work two days at a health fair, or hired by temp agencies paid for the purpose by Corinthian. Many placements were counted twice. Audits of various campuses revealed that student placement files had simply disappeared; others were backdated. Where campuses were performing poorly, Corinthian deemed them closed and excluded their placement rates from the already-rigged company-wide figures. The California AG alleges that top Corinthian executives knew their public claims about placement rates were false.

Harris's lawsuit also asserts that some Corinthian campuses in California advertised programs, such as ultrasound and radiology technician, that they didn't even offer. When students visited the schools to enroll, Corinthian staff pressured them to sign up for other programs. In addition, Corinthian required enrolling students to sign a waiver committing them not to sue the company for anything at all, including fraud and intentional injuries -- an agreement illegal under California law.

A spokesman for Corinthian told media outlets in response to the lawsuit that the company strives to comply with the law and achieves good results for students. The company's lawyers subsequently filed an answer to Harris's complaint asserting, "The Government's false allegations and the aspersions cast on the School's relationship with its students are offensive and demeaning—to the School and its employees; to its students who are striving for a career and a better life; and to the employers who hire its thousands of qualified graduates."[165]

Corinthian has received about $10 billion in federal student aid money over the past decade and gets about 90 percent of its revenue from

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[165] http://s3.documentcloud.org/documents/889232/corinthian-reply.pdf

taxpayers. It is the subject of numerous student and staff complaints, and is one of the four companies now under investigation by the group of a dozen state attorneys general. In June 2013, the Securities and Exchange Commission issued a subpoena to Corinthian concerning student recruitment, degree completion, job placement, loan defaults and compliance with U.S. Education Department rules. [166] In December 2013, the Consumer Financial Protection Bureau notified Corinthian that it expected to pursue legal action against the company for violation of federal laws with respect to private students loans.[167] Also, Corinthian revealed in September 2013 that the U.S. Justice Department is investigating claims that the company violated the False Claims Act with respect to its recruiting and financial aid practices and by, among other things, manipulating attendance records to keep federal aid for students no longer in attendance.[168]

And in January 2014 even the Department of Education, whose enforcement efforts have generally failed to address for-profit colleges abuses, moved toward taking tough measures with Corinthian, saying in a letter to the company that there were signs of "systematic deficiencies" in its operations. The Department asked Corinthian to promptly hand over documents regarding job placement rates. It also found various Corinthian locations in violation of the federal 90/10 rule. And it denied Corinthian's request to extend federal student aid to some new programs and locations, because the company "has admitted to falsifying placement rates and/or grade and attendance records at various institutions and because of ongoing state and federal investigations into serious

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[166] http://www.sec.gov/Archives/edgar/data/1066134/000110465913048089/a13-14724_18k.htm

[167] http://www.reuters.com/article/2014/01/06/corinthian-cfpb-idUSL3N0KG4D420140106

[168] http://online.wsj.com/news/articles/SB10001424052702303819704579318872286744010; https://www.sec.gov/Archives/edgar/data/1066134/000104746913008803/a2216385z10-k.htm

allegations." Corinthian responded by denying that it had "admitted wrongdoing."[169]

Corinthian also has responded, like EDMC, by blaming the students. Trace Urdan is a Wells Fargo Securities stock analyst who often boosts for-profit colleges while minimizing their abuses. Wells Fargo, one of the biggest banks in the U.S., is the largest institutional investor in Corinthian, with about 17 percent of the company. Urdan laid the blame for Corinthian's high failure rate at the feet of low-income students, or, as he calls them, "subprime" students. Urdan wrote that "essentially all of Corinthian's borrowers can be characterized as sub-prime." In response, I engaged Urdan in a discussion on Twitter. When I cited Corinthian's abysmal record, he responded: "School offers quality instruction and opportunity. Students make of it what they will."

Blaming the students that way is remarkable, given the evidence that Corinthian has engaged in fraudulent conduct. It's like saying about a restaurant that serves poison-laced food, "Diners make of it what they will." If the majority of students drop out of Corinthian schools, and the majority of students can't pay back their loans, the school is clearly doing things wrong -- charging too much, offering poor quality programs, failing to deliver on promises to train people for productive careers.

An associates degree in business at Corinthian's Everest College in Florida costs $46,792, while the same program at Miami Dade Community College costs $6,453. Two-thirds of Corinthian's associate degree students drop out; three-quarters of former students can't pay down their loans, and 36 percent default within three years, the highest rate of all publicly-traded college businesses.[170]

While its students went broke, Corinthian held expensive parties for top staff at locations including George Washington's Mount Vernon

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[169] http://www.huffingtonpost.com/2014/02/05/corinthian-colleges-department-of-education_n_4733396.html

[170] http://www.help.senate.gov/imo/media/for_profit_report/PartII/Corinthian.pdf

plantation and the San Diego Padres baseball stadium, according to a former staffer who attended one of these events and contacted me. She says, "Our students are getting poorer, while Corinthian is getting richer." Corinthian CEO Jack Massimino's compensation in a recent year was over $3.4 million dollars.[171]

Like other for-profits, Corinthian had sought to stem the widespread criticism by buying influential friends. After stepping down as President Obama's Secretary of Defense in 2013, Leon Panetta joined Corinthian's board of directors, on which he had previously served. The *Los Angeles Times* and, a month earlier, this author publicly questioned why Panetta was associated with a school that is the number seven recipient of GI Bill funding among all colleges in America but that so poorly serves veterans.[172] Panetta resigned, just 11 weeks after re-joining the board, citing his busy schedule. But Marc Morial, the head of the National Urban League and the former mayor of New Orleans, remains on Corinthian's board, for which he receives annual cash compensation and stock options. [173] Lobbyists for Corinthian included Democratic former congressman Richard Gephardt, a 1988 and 2004 presidential candidate who ran as a populist champion of working Americans, and Gephardt's former Democratic House colleague Vic Fazio.

Like Corinthian, Apollo, the company that operates the University of Phoenix, has also been under investigation, and charged with fraud and other misconduct.

In 2003, two former employees sued Apollo under the federal False Claims Act, alleging that the company had defrauded the U.S. Department of Education by obtaining federal student aid based on false statements of compliance with federal rules that prohibit schools from paying recruiters based on the number of students they recruit. Apollo settled that case in

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[171] http://www.forbes.com/profile/jack-massimino/
[172] http://articles.latimes.com/2013/may/31/business/la-fi-hiltzik-20130602; http://www.huffingtonpost.com/davidhalperin/leon-panetta-and-marc-mor_b_3187983.html
[173] http://www.huffingtonpost.com/davidhalperin/leon-panetta-quits-corint_b_3646152.html

2009 by paying out $78.5 million.[174] In 2004, the Department of Education brought a separate suit for these violations, resulting in Apollo paying another $9.8 million.[175]

Florida's Attorney General, Republican Pam Bondi, has subpoenaed Apollo as to "misrepresentations regarding financial aid" and "unfair or deceptive practices regarding recruiting, enrollment, placement, etc." The Massachusetts Attorney General is pursuing whether the company engaged in deceptive actions with respect to recruitment and financial aid.[176]

In 2010, Apollo disclosed that the Securities and Exchange Commission (SEC) had requested information from the company about its insider trading policies relating to stock sales made by John Sperling and his son Peter in 2009.[177] In April 2012, the SEC announced it was investigating the company for insider trading following a February 2012 announcement of lower than expected earnings.[178]

In 2009, Sperling took compensation from Apollo totaling $8.6 million, more than 13 times the salary of the president of the public University of Arizona.[179] The company's co-CEOs, Charles Edelstein and Gregory Capelli, shared another $3.4 million. John Murphy, an Apollo cofounder who recently published a book critical of the company, made

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[174] http://www.insidehighered.com/news/2009/12/15/apollo

[175] http://www.azcentral.com/families/education/articles/0914apollo14.html

[176] http://californiawatch.org/data/state-attorneys-general-investigating-profit-colleges

[177] http://www.help.senate.gov/imo/media/for_profit_report/PartII/Apollo.pdf

[178] http://www.reuters.com/article/2012/04/19/us-apollogroup-idUSBRE83I12C20120419

[179] http://www.help.senate.gov/imo/media/for_profit_report/PartII/Apollo.pdf

enough money to buy an unbelievably lavish $27 million San Francisco mansion that he was advertising for sale online in late 2013.[180]

While Corinthian, Apollo, and others faced scrutiny from state and federal authorities, other for-profit colleges were being taken to court by former students who said they had been deceived. In June 2013, a Missouri jury awarded $13 million in punitive damages to Jennifer Kerr, a single mother who had been misled by for-profit Vatterott College. Kerr had dreamed of becoming a nurse. A Vatterott recruiter told Kerr that the school didn't have a nursing program, but it did offer a medical assistant's degree which could get Kerr as job at $15 to $17 an hour, give her credits that would transfer to a nursing degree, and put her on the "fast track" to a nursing career. But after signing for more than $27,000 in loans and being in the program for over a year, Kerr discovered it wasn't a medical assistant program at all — it was a medical *office assistant* program. Vatterott staff then told her that an actual medical assistant's degree would require more classes and another $10,000.[181]

Vatterott, in fact, had a long record of abusing students and leaving them deep in debt. In 2009 and 2010, three top Vatterott executives pled guilty to a criminal conspiracy to fraudulently obtain federal student grants and loans by providing false diplomas and doctoring financial aid forms. Senator Tom Harkin's staff obtained internal training documents from Vatterott that seemed to instruct recruiters to use exploitative tactics: "We deal with people that live in the moment and for the moment. Their decision to start, stay in school or quit school is based more on emotion than logic. Pain is the greater motivator in the short term." Another Vatterott document described the target market for recruiters: "We serve the UN-DER world, Unemployed, Underpaid,

[180] http://www.businessinsider.com/u-of-phoenix-founder-selling-ca-mansion-2013-11?op=1
[181] http://www.kansascity.com/2013/06/18/4299739/jurys-award-wonderful-for-lees.html

Unsatisfied, Unskilled, Unprepared, Unsupported, Unmotivated, Unhappy, Underserved!"[182]

Vatterott's recruiting abuses have led to bad outcomes for enrolled students. The percentage of Vatterott students who default on their student loans within three years of dropping out or graduating is a very-high 26.6 percent. In 2012, eight of Vatterott's 39 programs failed all three tests of the Obama administration's "gainful employment" rule.

Another key fact: Vatterott is owned by TA Associates, a private equity firm whose investors include Mitt Romney's own private equity company, Solamere Capital. Solamere was started by Romney's son Tagg and Romney's chief campaign fundraiser Spencer Zwick in 2008 with $10 million in seed funding from Mitt Romney, who also was the featured speaker at Solamere's first investment conference. Another Solamere investor conference was held concurrently with a Romney campaign donor conference in June 2012, and, in March 2013, after Romney lost to Obama, he became chairman of Solamere's executive committee. Solamere describes itself as a "fund of funds" that allows its privileged investors to buy into high-end private equity firms, and one of those firms is TA associates. In the 2012 campaign, executives from TA and other for-profit college owners contributed heavily to the campaign and Super PAC of Romney, who in turn praised TA-owned Full Sail University and other for-profit colleges on the campaign trail, and pledged to cancel gainful employment and other accountability measures.[183] Romney touted Full Sail as affordable when in fact, by one calculation, it was the third most

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[182] http://www.help.senate.gov/imo/media/for_profit_report/PartII/Vatterott.pdf

[183] http://www.huffingtonpost.com/davidhalperin/jury-awards-13-million-to_b_3467763.html; http://www.thenation.com/article/170470/tagg-team-romney-family-recipe-crony-capitalism#; http://www.huffingtonpost.com/davidhalperin/mitt-romney-crony-capitalism_b_1966487.html; http://www.bostonglobe.com/news/politics/2013/03/06/mitt-romney-take-new-role-solamere-capital/Z5mw4EsCcLJPb6rhMLgocL/story.html

expensive college in America.[184] Romney didn't mention when praising Full Sail by name that it was owned by his donors and business associates.

In Jennifer Kerr's case, the jury determined that Vatterott had violated the Missouri Merchandising Practices Act and ordered Vatterott to pay her $27,676 in actual damages, as well as the $13 million in punitive damages, even though Kerr's lawyer had only asked for $2 to $4 million in punitives. Kerr told the *Kansas City Star* that, after leaving Vatterott, "for a long time, I was just devastated and depressed. The diploma I got was worthless." But she was pleased that her case exposed Vatterott's misconduct: "The truth finally came out. Not just for me, but for everyone like me who was fooled... I feel like in doing this, maybe others will have the courage to do the same. Maybe they'll see that they have a recourse."

Through all the investigations, lawsuits, and media reports, a broader swath of the public has come to learn that many for-profit colleges are engaged in serious misconduct. Student enrollments have declined at many schools. With these developments, and at least the possibility that reforms will take away for-profit colleges' automatic entitlement to federal money, the stock prices of many of the big publicly-traded companies have plunged.

Some companies in the industry have reacted to the increasing scrutiny and tightening of accountability by offering some of their own reforms – lowering prices somewhat, offering trial periods with a money-back guarantee.

When admissions representatives at for-profit colleges talk with me these days about their company practices, it seems that undercover investigations by the GAO and media outlets may have had an impact. At some companies, ultra-high-pressure tactics, such as efforts to "poke the pain," or make prospective students feel shame about their lives, have sometimes given way to more subtle pitches, asking the candidates whether they are satisfied with their lives and low-paying jobs, and where

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[184] http://www.huffingtonpost.com/davidhalperin/romney-for-profit-colleges-_b_1596300.html

they want to get in the future. The promises of jobs with high salaries are sometimes less explicit. But these in-person or over-the-phone for-profit college marketers still fail to provide an accurate picture. They pretend a program is difficult to get admitted to, even though most for-profit schools will accept almost anyone. They don't inform the student on the line that most of a program's graduates drop out the first year, and that even the graduates who get jobs in their chosen field often won't make enough money to pay back their loans. The for-profit college telemarketers may call the same prospect three times a day for years and years, even if that person requests that the calls stop.

The industry's big players have not fundamentally altered their business models, their relentless recruiting, their admission of students whom they know won't succeed in the program, their charging of tuition that they know is out of proportion to the salaries that even successful graduates can earn. Nor have these companies stopped attacking reasonable efforts to strengthen government oversight. They seem to want to go back to business as usual, and keep the taxpayer money flowing without regard to the consequences for students.

Will President Obama take strong action?

Despite the rapidly increasing effort by law enforcement agencies and former students to pursue abusive for-profit colleges in court, a strong gainful employment rule remains a critical tool in the struggle to curb abuses. Current federal regulations in this area have been weak, and have been easily evaded by the industry. The White House should not issue a gainful employment rule that effectively condones conduct that has already been labeled fraud by federal investigators and state prosecutors across the country. Federal aid should only go to higher education programs that actually help students to build better lives.

On March 14, 2014, the Obama Administration issued a new proposed gainful employment rule. APSCU denounced it as the flawed product of a "sham" process. The proposed rule is somewhat stronger than the 2011 rule that the federal court struck down, and it again places in peril some of the worst for-profit college programs. But the rule is weaker than the 2013 draft rules. Its central performance measures are debt-to-earnings tests, which would remove eligibility for programs whose graduates have student loan levels that are sky-high in comparison to their paychecks. But those standards are so weak that thousands of programs with debt levels greater than their graduates' entire discretionary incomes would pass. Thus the rule would allow many bad programs to survive, and to deceive and abuse students, for years to come. The Administration gave the public 60 days to comment before issuing a final rule. It's still possible that the White House could weaken the regulation even further before issuing it.

Eventually the truth will make the predatory for-profit colleges curb their egregious behavior. But the Administration should be leading this essential work, not following.

As a new president, Barack Obama pledged to take on the special interests and make Washington work for people. He also has launched initiatives to ensure that more Americans can successfully train, at prices they can afford, for real careers that support their families. And he has specifically promised to protect veterans and other students from predatory practices by career colleges. All of these Obama goals would be undermined severely, hundreds of billions more will be wasted, and the lives of countless more students may be ruined, unless his Administration promptly issues a strong gainful employment rule. The President's motives are right, and the motives of for-profit colleges, and the Members of Congress, his political donors, and his lobbyist friends who had taken their side, are dead wrong.

But whether the President will act decisively, at this writing, remains to be seen.

David Halperin is a Washington DC lawyer. He engages in advocacy on public policy issues and advises organizations on strategy, policy, communications, and legal matters. He was previously: founding director of the youth organization Campus Progress and senior vice president at the Center for American Progress; senior policy advisor for Howard Dean's presidential campaign; founding executive director of the

American Constitution Society; White House speechwriter and special assistant for national security affairs to President Clinton; co-founder of the Internet company RealNetworks; and counsel to the Senate Intelligence Committee. Halperin writes at RepublicReport.org and Huffington Post, and his articles have appeared in The New York Times, Washington Post, The Nation, and many other publications.