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For-Profit College Share Slump Converges With Surging Student Life-Debtors

By John Hechinger - Dec 28, 2010

Ronnie Franklin borrowed to pay his tuition at a for-profit college that advertised its success in preparing graduates for better jobs. That decision haunts him.

Frustrated that his degree didn't lead to work in electronics, Franklin -- now a $12-an-hour housepainter -- decided to go to a community college this year. He can't qualify for a federal grant that would have paid the cost because he defaulted on $20,000 of his earlier U.S. student loans.

Debt from a for-profit college education also shadows Christina Bergschneider and Michael DiGiacomo. Landlords rejected Bergschneider's apartment applications more than 20 times because of her unpaid student loans. DiGiacomo, who works in a copy shop, forfeits 15 percent of his after-tax income when the U.S. Education Department garnishees his paycheck to collect on $30,000 in federal loans for two different for-profits.

Students seeking to move up in life by getting a degree from a for-profit college are being trapped in a growing underclass of education debtors. Under U.S. law, their loan obligations can rarely be discharged in bankruptcy, making them more onerous than credit-card debt or subprime mortgages taken out before the housing bubble burst. Along with blocking students from further education and access to housing, defaults can subject them to government confiscation of tax refunds and Social Security payments, as well as paychecks.

"I'm cornered, and I don't know what to do," DiGiacomo, a 30-year-old former U.S. Army supply and logistics specialist, said in an interview. "I would love to forget I ever went to those two schools and start from scratch."

Taxpayer Money

Students at for-profit colleges, which rely on federal financial-aid programs for as much as 90 percent of revenue, carry the biggest loans in U.S. higher education. Bachelor's degree recipients at for-profits have median debt of $31,190 compared with $17,040 at private, nonprofit institutions and $7,960 at public colleges, according to Education Trust, a Washington-based nonprofit research and student-advocacy organization.

While currently enrolling one in eight U.S. students, for-profit colleges account for almost one in two federal-loan defaults, according to data released Sept. 13 by the Education Department.

"These students have debt loads that leave them out of the running for a productive life in America," Jose Cruz, a vice president of Education Trust, said in a telephone interview. "It's a dead end."

Piling Up Debt

With the U.S. unemployment rate at 9.8 percent, many college graduates, from traditional universities as well as for-profit colleges, aren't finding jobs and are piling up debt. Thirty-four million borrowers owe $713 billion, not including interest, in federal student loans, 11 times the amount of two decades ago, according to the Education Department. A total of $50 billion in these loans was in default in the year ended Sept. 30, twice the sum five years earlier.

President Barack Obama's administration wants to curb rising default rates and the threat of student destitution by cutting off federal funds to for-profit college programs whose students have the worst loan-repayment rates and lowest incomes relative to debt. Representative John Kline, the Minnesota Republican who will lead the House education committee beginning in January, pledged this month to block the plan, known as "gainful employment," saying the measures don't reflect an accurate picture of the quality of for-profit education.

Apollo Shares

Shares of University of Phoenix parent Apollo Group Inc., the largest for-profit college chain by enrollment, rose as high as $97.93 in June 2004, as President George W. Bush's administration eased regulations that resulted in more federal financial aid flowing into the industry. Apollo shares traded at $89.22 in January 2009 and have since declined by more than 50 percent as the Obama administration proposes more regulation and investors question the business model of the industry.

An index of 13 publicly traded for-profit education stocks fell 26 percent this year, while the Standard & Poor's 500 index has increased about 13 percent.

Investors are giving some of the lowest valuations to companies with above-average default rates such as Corinthian Colleges Inc., according to Jarrel Price, an analyst with Height Analytics in Washington. Shares of Santa Ana, California-based Corinthian rose 6 cents, or 1.3 percent, today to $4.74 in Nasdaq Stock Market composite trading at 9:53 a.m. and have declined 66 percent this year.

Assessing Value

Wally Weitz, founder of Omaha-based Weitz Funds, which manages $3.5 billion, said he is undecided about the value of the education provided by for-profit colleges.

"The pressure to make the numbers and so on maybe means you make too many loans to student who can't pay them back and admit students less likely to succeed," said Weitz, whose firm owned 874,250 shares of Phoenix-based Apollo at the end of the third quarter. His funds bought the shares, a small holding, because of their depressed valuation, Weitz said in a telephone interview.

For-profit colleges have higher student-loan default rates because they serve lower-income students, minorities, immigrants and working adults, Harris Miller, president of the Association of Private Sector Colleges & Universities, a Washington-based trade group, said in a telephone interview.

Culling Students

The colleges have taken steps to cull students who can't succeed, a move that will lower defaults, Miller said.

The University of Phoenix began an orientation program designed to lower dropout and default rates. Washington Post Co.'s Kaplan Higher Education, the third-biggest chain, announced a program to let prospects enroll for a trial period and opt out without owing tuition.

"Higher education is a hugely beneficial investment that pays off with a lifetime of higher earnings," Miller said. "Most Americans are willing to take some risk with a student loan, knowing the payoff for them individually can be quite significant."

Taking a loan didn't pay off for Franklin.

The son of a nurse's assistant and a sheriff's deputy who didn't attend college, Franklin dropped out of high school and spent two decades as a shoplifter and heroin addict, he said. After kicking his drug habit, he decided to turn his life around through education, he said.

He heard about RETS Technical Center in Boston from a television advertisement.

He remembers a message that he paraphrases as: "Are you tired of dead-end jobs with no real future?"

No Preparation

After graduating in 2000 from the 18-month electronics program, Franklin found himself unprepared for jobs in the field, he said. Classmates are now working as janitors, security guards and bus drivers, he said. Of RETS students who were required to start making payments in 2001, 23 percent defaulted on their loans within two years, quadruple the national average for all colleges.

Besides defaulting on $20,000 in student loans and ending up as a $12-an-hour painter, Franklin stayed with his two sons in a homeless shelter last year, he said.

Deciding he should study electronics from what he called a "reputable" institution, Franklin contacted Roxbury Community College in Boston this year, he said. Officials there told him he can't qualify for financial aid because, under Education Department rules, students aren't eligible if they are in default on government loans, he said.

Only 14 percent of community college students take out loans, compared with 97 percent of for-profit students seeking an associate's degree, according to Education Trust.

'Further in Debt'

"I got an outstanding student loan, and I got no job, and I'm further and further in debt," said Franklin, 55, who received a notice that he may forfeit his tax refund. "It's basically crippling me from doing a lot of things to improve my living condition for me and my family."

Eighty percent of graduates from RETS Technical Center succeeded in finding jobs related to their fields within 60 days of graduating, Don Harris, president of RETS at the time Franklin attended, said in an interview. The center's default rate reflects the socioeconomic background of students, many of whom come from inner-city Boston, he said. Each student received $1,800 in new equipment during the program, he said.

"Our school had a reputation as one of the best electronics programs in the area," Harris said.

Washington Post's Kaplan bought RETS in 2002, said Harris and a Kaplan spokeswoman, Melissa Mack. Now called Kaplan Career Institute, RETS had a 20.1 percent two-year default rate for borrowers who started making payments in 2008, according to the Education Department.

Low-Income Students

Kaplan students are typically lower-income working adults, with no financial support from their families, accounting for the institute's default rate, along with the weak economy, Mack said.

Once in default on student loans, people often can't pass the credit screenings needed to rent apartments, said Deanne Loonin, a lawyer with the National Consumer Law Center, a nonprofit advocacy organization in Boston.

U.S. Department of Housing and Urban Development rules governing public housing, which is often oversubscribed, allow agencies to take credit histories into account in considering applications, costing student-loan debtors access to affordable apartments, Loonin said in a telephone interview.

Bergschneider, the unsuccessful apartment hunter, has $100,000 in government and private education loans from her 2003 bachelor's degree in computer arts from the Academy of Art

University, a for-profit institution in San Francisco.

Minimum-Wage Work

After graduation, she found mostly minimum-wage work as a liquor-store clerk, a lifeguard, a maid, a waitress and a pet sitter, she said in a telephone interview.

Unable to make the $1,000-a-month payments on the loans, Bergschneider watched her credit score plummet to 526, on a scale of 300 to 850, leading to her frequent rejection by landlords, she said.

Bergschneider, 40, shared a 300-square-foot, one-bedroom apartment with her mother, she said. They moved this year into a two-bedroom house in Oakland, California, near an industrial strip and an auto-body shop, she said. Bergschneider sold her compact-disc collection to get by, and her mother sold jewelry, including her wedding band. They use a couch left behind by a previous tenant.

Representing herself in court, Bergschneider filed for bankruptcy in 2008. The judge declined to discharge her $100,000 in loans.

“I’m going to be in debt until I die,” Bergschneider said.

The Academy of Art’s official federal student-loan default rate is 5.5 percent, below the national average for all colleges, Lisa Cohen, an Academy spokeswoman, said in an e-mail.

Loan Counseling

All first-time Academy of Art students receive loan counseling, and students are responsible for making sure they can afford their obligations, Rebecca Delgado Rottman, vice president of the school, said in a telephone interview.

In this economy, graduates must work to find a job, canvassing employers, networking and attending mixers, Rottman said.

“Hundreds of students who graduated at the time she did are working,” Rottman said after being asked about Bergschneider.

Collecting Payment

To collect on federal loans, the Education Department can seize borrowers’ paychecks, tax refunds and Social Security payments without a court order -- as much as 15 percent of a borrower’s disposable income.

The department is currently authorized to collect tax refunds and Social Security from 3.4 million

borrowers. About 98,000 borrowers are having their wages garnisheed, the agency said.

In part because of those powers and the laws discouraging bankruptcy discharge, the department estimates it will collect 100 percent of the dollar value of all defaulted student loans.

DiGiacomo, the Army veteran who makes about $15 an hour as a salesman in a copy shop, said he has first-hand knowledge of the government's power.

The education department is taking 15 percent of his after-tax income to repay his $30,000 in federal loans, which he used for two for-profit colleges, according to loan documents and pay stubs.

Additional $50,000

DiGiacomo owes an additional $50,000 in education loans taken from private companies, he said. He financed an associate's degree in graphic design from Gibbs College, owned by Career Education Corp., a Hoffman Estates, Illinois-based chain of more than 90 campuses.

DiGiacomo also did coursework toward a bachelor's degree from New England Institute of Art, owned by Education Management Corp., the second-largest for-profit chain. His current job requires only a high-school diploma, he said in an interview.

Most students who graduated from the same program as DiGiacomo obtained jobs in their field of study, Jeff Leshay, a spokesman for Career Education, said in an e-mail. "Gibbs Boston takes the issue of job placement very seriously" and has staff dedicated to the task, he said. Jacquelyn P. Muller, a spokeswoman for Pittsburgh-based Education Management, declined comment, citing federal law on student privacy.

DiGiacomo, who lives in Brockton, Massachusetts, eats mostly ramen noodles and cold cuts rather than costlier foods because he ends up with about $100 a month after other necessities such as rent, he said.

'Feel Trapped'

"I feel trapped," DiGiacomo said. "I feel angry. I feel bullied."

Congress eased the burden on debtors this year. The legislators authorized a program that will let some borrowers, starting in 2014, make payments based on as little as 10 percent of their incomes -- down from 15 percent now -- over 25 years. In some instances, obligations may then be forgiven.

In one case, a bankruptcy judge eased the debt burden on a borrower who attended a for-profit college.

Amanda Lynne Jackson, now 27, went to Brooks College, also owned by Career Education. She studied graphic arts at the Long Beach, California, campus, receiving an associate's degree in 2005 with a 3.79 grade-point average, court records show.

After she couldn't get a job, she enrolled in a massage- therapy program at for-profit National Institute of Technology in Dearborn, Michigan -- now known as Everest Institute and owned by Corinthian.

Jackson filed for bankruptcy last year, listing $99,000 in student loans, the majority to pay for Brooks College. Unemployed, she lives on $725 a month, according to court records. In her most recent position, she earned $13.24 an hour, working in a call center for a credit union.

"I was making myself sick on a daily basis," Jackson said in a telephone interview. "How was I going to pay this?"

'Credible' Testimony

Jackson's testimony was "credible" that she couldn't find work in graphic arts because the degree from Brooks was "of little value in securing employment," Bankruptcy Court Judge Walter Shapero wrote in his August opinion. He noted that Brooks was the defendant in a class-action suit, alleging that students were misled about employment prospects, salaries and the quality of career services. Career Education settled the suit in 2008 for $12.2 million, and Jackson received $2,750, the judge wrote. Career Education has since closed Brooks.

Shapero ordered Jackson to pay $13,200 starting December 2012 in $100 monthly installments. If she does, the court will discharge the rest of her student loans.

Boost Income

Students who enroll at Corinthian for massage therapy often are earning at or near the legal minimum wage and can boost their income through the short-term programs, Kent Jenkins Jr., a spokesman for the company, said in an e-mail.

"For graduates who work hard and are successful, the increase in their earnings power substantially exceeds the cost of their education," Jenkins said. Jackson initially borrowed $10,800 for her Corinthian degree, Jenkins said.

Career Education disputes the judge's assessment of the value of a Brooks degree because most graduates find jobs related to their fields, and the college's closing wasn't related to the litigation, said Leshay, the company's spokesman. Tuition, room and board in Jackson's program at the time would have been about $43,000, Leshay said. Career Education didn't participate in the bankruptcy court

trial, he said.

Without help from the court, Jackson's life would have been ruined, she said.

Her degree from Brooks "had no value," she said. "It hasn't done anything for me. I don't know what I would have done if I lost."

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