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For-profit schools reel as rules affect enrollment

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NEW YORK (AP) — The nation's largest for-profit college says it will take a big hit to enrollment — and its bottom line — as it tightens admission practices. The move comes as the government ramps up regulation of an industry which critics say preys on lower-income students and leaves them with hefty debt loads and meager job prospects.

The number of lower-income students enrolled at for-profit colleges has surged in the past few years. Big advertising budgets drew those trying to bolster their resumes as a hedge against high unemployment. But critics claim the schools are not helping students find better jobs and say enrollment counselors sign up many who are unprepared for higher education. When they drop out, they are still stuck paying back their student loans.

Defaults on student loans have been rising, sticking taxpayers with the bills. So the government has proposed regulations that could limit schools' access to federal financial aid if graduates' debt levels are too high or too few students repay loans.

Amid intense scrutiny of the industry, Apollo Group Inc. said Wednesday it will provide new students with a free three-week trial program to see if they are ready for its University of Phoenix curriculums — weeding out those at risk of leaving school before earning degrees. And it will no longer pay its counselors bonuses based on how many students they enroll.

"Now, they have to slow down enrollment and be less active in targeting these students. They have to go back to the more traditional students who are working adults," said Matt Snowling, an analyst at FBR Capital Markets.

The Phoenix-based company also is monitoring 30,000 conversations every day between its employees and prospective students after a government report showed some for-profit colleges engaged in allegedly deceptive recruiting practices. It is trying to attract more employer-sponsored students into its classrooms — and will likely end up with a wealthier student body.

"There's going to be fewer associate students. Generally associate students tend to be a lower-income demographic," said BMO Capital Markets analyst Jeff Silber.

But the tighter admissions standards come at a cost. Apollo said it expects the number of new students enrolling at its University of Phoenix campuses to drop 40 percent in the next quarter and withdrew its profit outlook for next year.

The news sent chills through the industry as investors worried that other for-profit schools will issue similar forecasts. Stocks tumbled across the sector, led by Apollo, which dropped \$11.50, or 23 percent, to \$38. Education Management Corp., DeVry Inc., Corinthian Colleges Inc., ITT Educational Services Inc., Career Education Corp. and Strayer Education Inc. all fell by double-digit percentages. Shares of newspaper publisher Washington Post Co., which gets the majority of its revenue from the Kaplan school chain, slumped 9 percent.

Apollo, the first of the sector to report quarterly results, also warned that it is close to maxing out how much revenue it can receive from federal financial aid resources. Industrywide, for-profit schools get about 83 percent of their revenue from government-backed loans and federal Pell Grants, which go to lower-income students. Federal regulations cap that amount at 90 percent. If a school exceeds that limit for two years in a row, it may lose access to federal financial aid.

Apollo said that it expects to top that level in 2012. Since the government only covers a certain amount of tuition, Apollo said it may have to raise tuition to reduce the percentage of aid it receives and stay within the 90/10 requirement.

That scares Joslin Jade Ellis, a stay-at-home mom from Prince George's County, Md., and an online student at University of Phoenix. Her tuition is now covered entirely by a federal Pell Grant and other financial aid.

"It's important for anyone who wants to go to college to at least have that shot," said Ellis, who is taking health administration courses. "A lot of families can't afford to send their kids to college, at least in this economy. And now, no one will even look at your resume unless you have some sort of college background or a degree."

Former UoP student Glenn Moscoso finds the prospect of tuition increases alarming.

"In this economy and job market, isn't raising tuition adding debt to a no-guarantee job market?" said Moscoso, who in April earned a master's degree in education.

Moscoso, 40, said he chose the school because it didn't require him to take the Graduate Record Examination, or GRE. He said he took out \$19,000 in federal student loans and so far has not found a job — in part, he said, because of limited opportunities in his field, adult education.

— AP Education Writer Eric Gorski in Denver contributed to this report.

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