

For-Profit Colleges Seek Shares Revival, Reprieve on U.S. Rules

By John Lauerman - Nov 4, 2010

For-profit colleges, whose stocks have lost 32 percent this year, are likely to get help from Republicans to ease limits on federal grants and loans that provide the bulk of education companies' revenue.

Republican Representative [John Kline](#) from Minnesota, in line to become chairman of the House Committee on Education and Labor, has criticized a proposed U.S. Education Department regulation that ties for-profit colleges' eligibility for student aid to whether graduates pay back their loans. The department today begins two days of hearings on the so-called gainful employment rule.

For-profit colleges may also ask lawmakers to extend a provision easing a rule that can cut their access to student aid when more than 90 percent their revenue comes from government sources. [Apollo Group Inc.](#), the biggest U.S. education company, and [Corinthian Colleges Inc.](#) have said some of their campuses are likely to violate the rule in the coming year.

"There's optimism that Republicans will change the higher education debate in Washington and prevent some of the most onerous regulations and legislation from taking effect," said [Jarrel Price](#), an analyst with Height Analytics in Washington, in a telephone interview yesterday.

Phoenix-based Apollo fell 32 cents, or less than 1 percent, to \$38.47 yesterday in Nasdaq Stock Market composite trading. An [index](#) of 13 for-profit college stocks fell 2.5 percent.

Republican Takeover

Republicans won a majority in the House of Representatives in the Nov. 2 election, gaining at least 60 seats, their biggest increase since 1938.

Education Secretary [Arne Duncan](#) delayed issuing the gainful employment rule after receiving 90,000 comment letters. Kline feels the measure, scheduled to take effect in 2012, unnecessarily hurts for-profit colleges and their students, said Alexa Marrero, a spokeswoman for the

congressman. Kline called the proposed rule “confusing and complex,” in an Aug. 2 letter to the agency.

“Our preferred approach is to ensure greater disclosure and transparency on the part of institutions,” Marrero said in a telephone interview. “Information about graduation and job placement is better than the federal government coming in and deciding which schools are best for students.”

Republicans may seek to soften the rule either by negotiating with the administration on its other goals, such as expanded early childhood education, or by advancing legislation to revoke some of or the entire proposal, Price said. Either approach will present a challenge, he said.

‘Horse-Trading’

“It’s unclear whether Republicans can bring gainful employment to the horse-trading block,” he said. “It’s an uphill battle for them to get legislative proposals past a Democratic Senate filibuster or a presidential veto.”

While Republicans are more sensitive to for-profit colleges’ concerns about regulation, the industry must still show that its programs are worthy of government support, said [Harris Miller](#), president and chief executive officer of the [Association of Private Sector Colleges and Universities](#) in Washington. Some Republicans have called for widespread budget cuts that might affect the Pell Grant program, he said. For-profit colleges received about \$7.3 billion in student Pell Grant aid in the 2009-2010 academic year, according to the Education Department.

“We have to show that taxpayers and students are getting a good return on their investments, particularly if budget control and spending control become a central theme,” he said.

90/10 Rule

Education companies are particularly concerned about the expiration of the law that has eased the “90/10 rule” for two years, Miller said. Companies got the relief because of the abrupt increase in aid that became available to students as the Obama administration expanded the [Pell Grant](#) program, pushing many for-profit colleges close to the 90 percent limit, he said.

“We’re asking for another year of extension to create time for the marketplace to adjust and stay compliant,” he said. Companies that violate the 90/10 rule two years in a row can lose access to government aid.

Senator [Tom Harkin](#), the Iowa Democrat who heads the Senate education committee, has commissioned a government probe of for-profit colleges and held three hearings on their sales tactics, use of government funds and program quality. Harkin has scheduled a fourth hearing in December that will likely scrutinize enrollments of military personnel, said [Jeff Silber](#), an analyst with BMO Capital Markets in New York, in a note to clients yesterday. Federal spending on veterans' education will more than double this year to \$9.6 billion from \$4.2 billion in 2009, according to the U.S. Department of Veterans Affairs.

Legislative Changes

Harkin said Sept. 30 he's planning "legislative changes" for the education industry. Republicans will now likely block those efforts, said [Robert Froehlich](#), chief investment strategist at Hartford Financial Services Group Inc. Hartford's mutual funds unit manages about \$95 billion.

Democrats "wanted to figure out some way of congressional control and oversight of that industry," he said yesterday in a telephone interview. "There is no way that happens with Republicans controlling the House, so that industry has really got to be popping the champagne bottles."

While Democrats retained control of the Senate, Republicans on the Senate education committee have criticized Harkin's scrutiny. Senator [Mike Enzi](#) of Wyoming, the highest ranking Republican on the committee, walked out of a September hearing saying Harkin was determined to "beat up" on for-profit colleges. Republican Senator [John McCain](#) of Arizona, who was re-elected Nov. 2, also walked out of the hearing.

To contact the reporter on this story: [John Lauer](#) in Boston at jlauer@bloomberg.net

To contact the editor responsible for this story: Jonathan Kaufman at jkaufman17@bloomberg.net.

©2010 BLOOMBERG L.P. ALL RIGHTS RESERVED.