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EDITORIAL: Short-sale scandal over Obama rules

Traders win as for-profit college students suffer

By THE WASHINGTON TIMES

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The Obama administration is proposing new regulations to block college access to 300,000 students of for-profit colleges. This benefits sharpie short-sellers out to make their own profits.

Helping expose the shenanigans is Lanny Davis, White House counsel under President Clinton, who has broken with his usual liberal allies while serving as counsel for a for-profit university group called the Coalition for Educational Success. According to Mr. Davis, newly released e-mails show opponents of for-profit colleges advising federal education officials at the same time the opponents collaborated with financial short-sellers in position to profit from the proposed regulations. In one instance, the opponents shared embargoed copies - not available to the public - of draft Department of Education rules.

In another e-mail, an official of a nonprofit Florida community college - one of the key opponents of for-profits - wrote of "breaking news" to a key short-seller: "Reporters will be briefed by US [Department of Education] on the proposed gainful employment regs at 6 p.m. tonight, with public release at midnight. We expect market churn." Such a statement carries a whiff of insider trading. "That's close to a 'smoking gun' e-mail," Mr. Davis told The Washington Times.

In the midst of all this, the Senate Committee on Health, Education, Labor and Pensions, chaired by Sen. Tom Harkin, Iowa Democrat, was hosting testimony by a nationally famous short-seller, Steven Eisman. He called the for-profit colleges "as socially destructive as the subprime mortgage industry." At the time he testified, Mr. Eisman held short positions in the industry, and later e-mails indicate he was in deep communication with the same opponents who leaked inside data about the regulations.

"Why didn't Senator Harkin require Eisman to make full disclosure of his short positions before allowing him to testify, knowing there was a high probability that because of his testimony he was going to make a lot of money?" Mr. Davis asks. "Let's have some transparency here."

Central to this issue is that the regulations themselves - not the for-profit colleges - are truly destructive. Schools such as the University of Phoenix and the local Strayer University serve a large proportion of lower-income and minority students who fit classes around full-time jobs or other hurdles. The proposed Obama rules would prohibit federal student loans from going to students in programs at these colleges that have a high default rate, as measured by an arbitrary metric. Would-be students thus would lose access to classes because prior students in a program defaulted. In an attempt to hamstring some colleges, President Obama would punish students.

Education shouldn't be gamed at the cost of needy students. The new regulations should be withdrawn, and the Securities and Exchange Commission and the Education Department's inspector general need to investigate the suspicious collaborations surrounding those regulations.