

The Real Deal on For-Profit Colleges

Their reputation is tarnished, but they can be a compelling alternative to traditional schools.

By Jane Bennett Clark

From *Kiplinger's Personal Finance* magazine, May 2011

During her first year at a community college in Cumberland, Md., Jackie Davis felt at sea. "I kept switching majors. I wasn't focused, and I was homesick," she says. That summer, she researched other schools and enrolled in DeVry University, a for-profit institution with a campus near her Washington, D.C., home. DeVry's program in computer information systems struck her as perfect training for her dream career at the FBI, where she had interned. She plans to apply for a job at the agency as soon as she gets her bachelor's degree, which she should earn a year ahead of the traditional four-year schedule.

For Davis and other career-oriented students, for-profit colleges represent a compelling alternative to public and nonprofit colleges. The schools offer classes at night, online and in weeks-long sessions year-round, making them "much more flexible" than traditional colleges, says Harris Miller, of the Association of Private Sector Colleges and Universities. And they focus on job training, which in this economy would seem to offer an edge.

But some evidence shows that you could be worse off for attending a for-profit institution. Students at for-profits pay more in tuition and fees than do students at public colleges, and they incur more debt and default on their loans in greater numbers than students in any other sector. Some of the big for-profits have lately been accused of pressuring students -- most of whom are low-income -- to borrow heavily to attend regardless of their prospects for repaying their loans. Such loans are available through federally subsidized programs, by far the biggest source of revenue, along with federal grants, for for-profit colleges.

You have to wonder: Can you really profit from a for-profit education? Sure, says Kevin Kinser, a professor at SUNY-Albany who studies the for-profit sector, "but you shouldn't assume that will be the case based solely on a commercial on late-night TV." To get a credential worth having, you need to take a close look at the schools and resist the hard sell.

Filling a need



The community college Davis first attended offered plenty of choices but not much guidance. "Part of the problem with community colleges is the great number of options they offer students -- too many," says Davis Jenkins, of the Community College Research Center. In contrast, "for-profits offer highly structured programs, with no electives. You're on a clear path."

Not surprisingly for an industry that encompasses everything from beauty schools to PhD programs, the education at for-profits ranges from strong to subpar. Those with nonacademic programs, such as culinary schools, rely on the expertise of professionals, some of whom may be top-notch. As for academic programs, "for-profits draw on the scholarship and advice of traditional academics and institutions," says Kinser. "Many of the faculty have earned degrees from traditional institutions and are moonlighting, so the separation between for-profits and the public sector is more a myth than a reality."

In some areas, community colleges have experienced record enrollment over the past few years as well as record budget cuts. Those trends collided in California after draconian cuts in state funding forced community colleges to eliminate classes, squeezing out 21,000 students in 2010. Many went to for-profits by necessity. That alternative isn't cheap. Tuition and fees at for-profit colleges average \$13,935 a year, almost twice the cost of in-state tuition and fees at public colleges and significantly more than the average annual cost (\$2,713) of two-year public institutions, according to the College Board. Private nonprofit colleges charge more than public and for-profit colleges but offer enough grants to bring the net price for many students below that of for-profits.

To be fair, for-profits don't benefit from the state subsidies of public colleges and the tax subsidies and endowments of private nonprofit colleges. "They make their money by putting people in their classes and having them pay tuition," says Kinser. Higher-ed companies that are publicly traded -- a dozen or so large corporations that dominate the sector -- have an obligation to generate profits. Most have done so by relentlessly recruiting students, a practice made easier by the availability of low-cost government loans. "The academic model of for-profits was built on designing a curriculum directly applicable to the workplace," says Kinser. "The business model is devoted to enrollment." (See [STOCK WATCH: School Stocks That Make the Grade](#) for more on the business of for-profit colleges and investing in them.)

Until recently, that growth model has been wildly successful. Annual enrollment in for-profit colleges and universities increased 236% between 1998 and 2008, according to the Education Trust, an independent advocacy group, compared with 31% at all colleges and universities. Congress delivered a huge boost to the industry mid decade when it eliminated a rule that colleges deliver no more than 50% of their classes online and enroll no more than half their students in distance learning. The Post 9/11 GI Bill, enacted in 2008, pumped up the industry still further by expanding educational benefits to veterans, whom for-profit colleges have aggressively wooed.

With the forces for expansion in place, publicly traded for-profits increased enrollment from a few hundred students at brick-and-mortar campuses to several hundred thousand students attending classes mostly online. The University of Phoenix, owned by the Apollo Group, pulled in \$4.5 billion in revenues in fiscal 2010 and currently enrolls 438,000 students at more than 200 campuses, including its online-only university.

Enrollment has lately declined or stagnated among publicly owned companies, in part because of bad publicity. Last year, a Senate hearing on for-profit colleges aired reports of shady recruiting practices, including deceiving prospective students about job and salary prospects. Some colleges, including the University of Phoenix, have already changed recruiting practices -- and seen a dive in enrollment -- in advance of government regulations that would curb abuses. The regulations take effect in July 2011.

One of the new rules prevents recruiters from receiving any compensation tied to the number of students they enroll. Another, called the "gainful employment" rule (which is still being hammered out), requires schools to provide data on borrowers' debt relative to income as well as their ability to pay down student

debt. Both are indicators of whether the program's job promises match the results.

Troubling track record

However students get in the door, they typically cover the costs with federal grants and loans, especially the need-based Pell grants and Direct Loans (also known as Staffords). Virtually all students at for-profits borrow for their education, at an average of \$19,700 for those who receive associate's degrees and \$33,050 for bachelor's degree recipients. The majority of students who attend community colleges borrow little or nothing to cover their education. The average four-year debt for students at other institutions is \$22,750.

You could argue that students who take out loans to get a credential are investing wisely in their future. But the investment is all but worthless if they fail to complete the program. "The biggest problem for-profits need to address is their ability to help students graduate," says Kinser. Two-year for-profit schools do well on this measure compared with community colleges. Four-year for-profit institutions, however, fall far short of every other sector, delivering degrees to only 22% of their students within six years.

Why the poor track record? For one thing, for-profit colleges attract nontraditional students, many of whom are the first in their families to attend college, and those students have higher dropout rates. The University of Phoenix recently began requiring incoming students whom the school identifies as shaky prospects to take a free three-week course to find out early on whether the school is the right fit.

Another issue: online programs, for which students need the discipline to log in and follow the prescribed lessons. "For nontraditional students, it's common sense that a hybrid -- in the classroom and online -- is the way to go," says Jenkins, of the Community College Research Center.

Students who drop out have much higher loan-default rates than those who complete the program. One-fourth of all students who borrow to attend for-profit institutions default on their loans within the first three years of repayment, compared with 18% who attend community colleges, 8% at four-year public colleges and 7% at private nonprofits.

Borrowers also tend to default if they borrowed heavily to train for a job that never materialized. Many for-profits have a solid record for job training, but some are notorious for promising high-paying jobs in professions for which the reality is just the opposite.

"Culinary schools are the worst offenders," says Kevin Carey, of the Education Sector, a policy group. "You borrow a lot of money and what you get is an \$8-an-hour job putting whipped cream on desserts."

The new rules prohibit such misrepresentation and should help prospective students steer clear of for-profit colleges that hype salary expectations. Schools of all kinds are required to report graduation and completion rates, as well as the percentage of students who default within three years of entering repayment. Look for those details on the school's Web site or at [CollegeNavigator](#).

Then do some homework, starting with the colleges' record on job placement. Check salaries and openings in your field at independent sites, such as Payscale.com, and weigh starting and average salaries against the amount you intend to borrow. Talk to employers who have hired someone from the school you are considering, as well as students who have recently graduated. In some fields, such as medical transcription, for-profits are considered the go-to place for training. In others, such as business management, a candidate with a master's degree from a for-profit may compete poorly against MBAs from more prestigious private and public institutions.

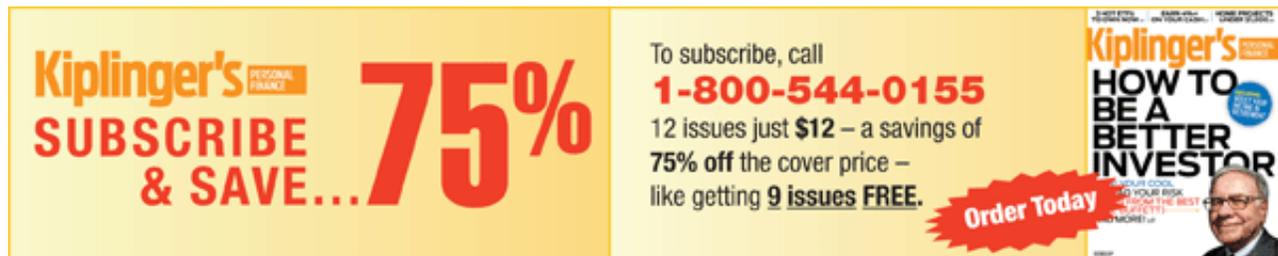
Credits that count

Justin Logsdon of Burleson, Tex., aspired to a career in graphic design when he enrolled at Westwood College, a for-profit school in Fort Worth. Logsdon, 22, earned an associate's degree in the subject, to the tune of \$34,000 in student loans, but was unable to find a job in the field. Eventually, he tried to transfer his credits to a four-year public college.

No dice. Westwood's Fort Worth campus is accredited by the Accrediting Council for Independent Colleges and Schools, one of several national associations. Most public and nonprofit colleges, however, are accredited by regional associations, deemed the gold standard by traditional academia. Those colleges typically refuse to accept credits from schools with national accreditation. To go from one to the other, as Logsdon tried to do, you have to start over.

For-profit colleges with longstanding ties to the community and to local employers don't necessarily need a nod from a regional accrediting agency, but big for-profits with multiple campuses covet the accreditation. They often set up headquarters to get a particular regional accreditation and establish branches elsewhere, or they snap up struggling colleges with regional accreditation and transform them into for-profits. "A company will buy Our Lady of the About-to-Be-Bankrupt College, with 500 students," says Carey. "Four years later, it has 500 students in the building and 40,000 around the world."

You should know before enrolling if the school was accredited according to a different model and how its reputation stacks up now. Keep in mind that colleges, not an accrediting agency, have the final say on what credits they accept. Also consider program accreditation. A law school worth its salt, for instance, will be accredited by the American Bar Association. Some for-profits carry multiple accreditations. Before you enroll, be sure the list includes the one you need.



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