

For-profit college stocks tumble on Apollo warning

By TALI ARBEL and JANNA HERRON (AP) – 2 hours ago

NEW YORK — Investors fled for-profit college stocks on Thursday after the sector's bellwether predicted a 40-percent drop in student enrollment next quarter and withdrew its forecast for next year. The news chilled an industry facing increased government scrutiny over concerns about soaring student loan defaults.

Enrollments at for-profit schools surged during the recession. Big advertising budgets drew students 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 students who are unprepared for higher education. When they drop out, they are still stuck paying back their student loans.

Apollo Group Inc., which runs the University of Phoenix, attributes its expected enrollment decline to changing practices aimed at satisfying new government regulations. Apollo will no longer pay its counselors bonuses based on how many students they enroll. It also will provide new students with a free three-week trial program to see if they are ready for school, weeding out those at risk of leaving school before earning degrees.

Meanwhile, the industry is facing a proposed new rule from the Department of Education that could limit schools' access to federal financial aid — the bulk of their revenue — if graduates' debt levels are too high or too few students repay loans.

And, many schools are close to maxing out how much revenue they can receive from federal financial aid resources. Federal regulations cap that amount at 90 percent. The industry averages 83 percent, largely because they focus on recruiting lower-income students who qualify for federal Pell Grants.

"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.

In afternoon trading, shares of Apollo tumbled \$12.64, or 26 percent, to \$36.86. The rest of the sector followed suit.

Education Management Corp. shares lost \$2.70, or 20 percent, to \$10.57. DeVry Inc. fell \$8.67, or 17 percent, to \$41.90; Corinthian Colleges Inc. decreased \$1.16, or 19 percent, to \$4.86; ITT Educational Services Inc. dropped \$10.58, or 16 percent, to \$55.34; Career Education fell \$3.29, or 16 percent, to \$16.898; Strayer Education Inc. declined \$21.21, or 14 percent, to \$135.84.

Shares of newspaper publisher Washington Post Co., which owns the Kaplan school chain, slumped \$34.61, or 8.1 percent, to \$394.

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