Homeless Dropouts From High School Lured by For-Profit Colleges

By Daniel Golden

April 30 (Bloomberg) – Benson Rollins wants a college degree. The unemployed high school dropout who attends Alcoholics Anonymous and has been homeless for 10 months is being courted by the University of Phoenix. Two of its recruiters got themselves invited to a Cleveland shelter last October and pitched the advantages of going to the country's largest for-profit college to 70 destitute men.

Their visit spurred the 23-year-old Rollins to fill out an online form expressing interest. Phoenix salespeople then barraged him with phone calls and e-mails, urging a tour of its Cleveland campus. "If higher education is important to you for professional growth, and to achieve your academic goals, why wait any longer? Classes start soon and space is limited," one Phoenix employee e-mailed him on April 15. "I'll be happy to walk you through the entire application process."

Rollins's experience is increasingly common. The boom in for-profit education, driven by a political consensus that all Americans need more than a high school diploma, has intensified efforts to recruit the homeless, Bloomberg Businessweek magazine reports in its May 3 issue. Such disadvantaged students are desirable because they qualify for federal grants and loans, which are largely responsible for the prosperity of for-profit colleges. Federal aid to students at for-profit colleges jumped to $26.5 billion in 2009 from $4.6 billion in 2000. Publicly traded higher education companies derive three-fourths of their revenue from federal funds, with Phoenix at 86 percent, up from just 48 percent in 2001 and approaching the 90 percent limit set by federal law.

Biweekly Stipend

The privately held Drake College of Business, which trains people to be medical and dental assistants, relied on taxpayers for 87 percent of its revenue in 2007. Almost 5 percent of the student body at its Newark, New Jersey, branch is homeless, says Jean Aoun, director of admissions and student services there. Late in 2008, it began offering a $350 biweekly stipend to students who show up for 80 percent of classes and maintain a "C" average.

"It's basically known in the community: If you're homeless, and you need some money, go to Drake," says Carmella Hutson, a case manager at the Goodwill Rescue Mission in Newark, where about 20 clients have enrolled at Drake in the past two years. "It would put money in my pocket, help me buy a car," adds Jerome Nickens, 45, who lived at the mission when he talked to a Drake representative but decided not to enroll.

Formal Investigation

After Bloomberg Businessweek called the Accrediting Council for Independent Colleges & Schools to inquire about the stipends, the council opened an investigation into the college's recruitment practices. The inquiry could lead to revoking Drake's accreditation, leaving it ineligible for federal aid.

Chancellor University in Cleveland, which counts Jack Welch as an investor and features a weekly video for students by the former General Electric Co. chief executive, explicitly focused recruiting efforts on local shelters after it realized that Phoenix, owned by Apollo Group Inc., was doing so. Chancellor has stopped pursuing the homeless, and Phoenix says any recruiting by its employees in Cleveland shelters was unauthorized. Phoenix's business code prohibits recruiting at shelters, and any employee violating the ban could face termination, Apollo says.

Phoenix wants to ensure that "only students who have a reasonable chance to succeed enroll in our programs," Apollo spokesman Manny Rivera said in an e-mail.

Welfare Population

Other schools see nothing wrong with reaching out to the disadvantaged. "We don't exclusively target the homeless," says Ziad Fadel, chief executive of Drake, which also sends recruiters to welfare and employment agencies. "We are in a community that is low-income and happens to have a lot of people on welfare."

The every-other-Friday payment encourages Drake students to stay in school and graduate, he says. The stipend, which about three-fourths of Drake's 1,200 students receive, is not "a gimmick to just get students in the front door," Fadel says. He adds that a sample analysis of 30 graduates placed by Drake's career services office found "some very substantial improvements in income."

While many caseworkers for the homeless are gratified by the attention, some see only exploitation. The companies "are preying upon people who are already vulnerable and can't make it through a university," says Sara Cohen, a case manager at Shelter Now in Meriden, Conn. "It's evil."

Déjà-vu

The current state of for-profit education has an element of déjà vu. Twenty years ago the sector had grown wild and unruly, as fly-by-night trade schools siphoned off students from welfare and unemployment lines, ostensibly to train them as truck drivers or hairdressers. Often these enterprises provided little or no schooling; their aim was the federal student aid. Default rates on student loans skyrocketed to 22 percent before Congress enacted tough regulations in 1992. Among them were limits on default rates for individual colleges as well as a cap on the percentage of their revenue that they could receive from the government. The schools were also forbidden to pay recruiters based on how many students they enrolled.

The reforms injected discipline into the industry and brought down default rates. Then, a decade later, the Bush administration relaxed the ban on incentive compensation for recruiters, opening the door for the aggressive wooing of the homeless.

"Targeting vulnerable populations who are not likely to benefit is one example of overzealous recruiting that can be driven by paying based on enrollment numbers," says Robert Shireman, Deputy Under Secretary of the U.S. Education Department, which is pushing to tighten the rules.

Unleashing Potential

The Bush Administration also sought to unleash online education's potential. Phoenix now boasts 458,600 students, with more than 200,000 in its two-year online program. Enrollment in for-profit colleges grew to 1.8 million in 2008 from 673,000 in 2000. Revenue rose to an estimated $29.2 billion this year from $9 billion in 2000, says Jeffrey Silber, an analyst for BMO Capital Markets in New York. Operating margins averaged 21 percent in 2009; schools typically charge $10,000 to $20,000 a year, well above comparable programs at community colleges.

The industry is now fully mainstream. Goldman Sachs Group Inc. owns 38 percent of the for-profit Education Management Corp. in Pittsburgh, which has 136,000 students in programs ranging from fashion to culinary arts, and former President Bill Clinton took a position as honorary chancellor of Laureate International Universities, owned by Baltimore-based Laureate Education Inc. Investors are flocking to the industry, drawn by the stability of government funding and the profit potential of online classes. But some of the unsavory practices that spurred Congress to act are springing back to life, with a new wrinkle or two.

Homeless Circuit

In Cleveland, Chancellor and Phoenix were both hitting the homeless shelters last year. Byron Thompson, who joined Phoenix in 2009 as a recruiter, soon made presentations at Y Haven, Salvation Army Harbor Light and Transitional Housing, all of which serve the city's homeless.

Thompson, 29, says the recruiting served a social purpose: "I feel the homeless are a real population that can't be ignored." Borrowing by the homeless to pay tuition "is no different from a middle-class student who has to take out a loan," he says. He also hoped to boost his pay. "The month I signed up two or three women from Transitional Housing was a good month," he admits. (Phoenix recruiters in Cleveland had a quota of five students a month, according to a former employee.)

Legal Settlement

Thompson, who left Phoenix in January, acknowledges that his bosses didn't endorse his efforts to recruit the homeless. Apollo Group agreed last December to pay $78.5 million to settle a federal lawsuit in California alleging that compensation for Phoenix recruiters violated restrictions on incentive pay. The company, which admitted no wrongdoing, says it's changing its compensation model.

While Thompson says he was "welcomed with open arms" at the shelters, some staff members were wary. "The question in my mind about Phoenix was, 'Why are they doing this?'" says Bruce Shagovac, a counselor at Y Haven. "There's got to be some payoff for them."

One homeless woman whom Thompson steered to Phoenix was Marisol Lugo. Lugo ran away from her Chicago home at age 12, became a heroin addict, and lived on the streets for 22 years, eating out of restaurant trash bins and sleeping in parks and abandoned cars. After detox, she moved in 2008 to Transitional Housing, obtained a high school equivalency degree, and got to know Thompson. "He gave me wonderful words of encouragement," says Lugo.

With federal grants and loans covering the $10,000-plus annual tuition, she began pursuing a two-year business degree online at Phoenix last August. She soon ran into academic difficulties, failing a course in critical thinking.

Retaining Information

"Sometimes, having used so much drugs, I have trouble retaining information," says Lugo, who now has her own apartment and a maintenance job at the shelter. According to Phoenix, she left the school in November. She says she is still registered and there is a payment dispute.

Phoenix's forays into shelters were noted by a new Cleveland rival. In 2008, investors bought nonprofit Myers University, which was under court receivership, and renamed it Chancellor. A year later Welch acquired a stake in it; the university named its new master's degree program in business administration after him, and Welch helped develop the curriculum.

At a faculty function last August, Darius Navran, dean of Chancellor's School of Professional Studies, sought out Jeffrey Perkins Jr., an adjunct professor of public administration, and asked how Chancellor could boost its enrollment of about 400.

Nontraditional Students

"If we don't tap into that population, Phoenix will," Perkins says he told Navran, meaning the homeless. The dean agreed.

Chancellor's small classes and low student-to-faculty ratio are suited to nontraditional students such as the homeless, Perkins says. He e-mailed managers of Cleveland social service agencies in September, inviting them to a lunch at Chancellor to "discuss our new plans to recruit the economically disadvantaged and at-risk groups. Many of them are targeted for on-site recruitment at local transitional housing, halfway houses, and other human service facilities."

Sixteen human services managers showed up for the lunch. Two days later, in a memo to Navran, Perkins predicted that the program would produce "a minimum of at least 10 enrollees by spring term."

'Heavy-Handed'

In the ensuing weeks, Perkins and other Chancellor officials gave presentations at a dozen social service programs. Their pitch was "very heavy-handed," says Phillip Hines, housing coordinator for the Community Women's Shelter. "It was beating the drum, 'Go to Chancellor. This is what we offer. Financial aid, financial aid, financial aid.'"

Afterward, Hines says, Chancellor hounded him with phone calls and e-mails to "get these women rolling." Chancellor's initiative reaped only one or two students and was discontinued. It "had all the best intentions," CEO Bob Barker said in an e-mail, "but the time and effort generated very little interest."

In one view, the rise of for-profit

colleges represents a laudable merger of public interest and the private sector. With public colleges beset by budget cuts, for-profit colleges offer an opportunity for people who are down and out to get ahead. Students with no assets or collateral can tap federal grants and loans on the theory that degrees will lead to well-paying jobs that enable borrowers to repay.

Tuition Hikes

The trouble is the cost. Education companies charge high prices that require students to take on debt. Chancellor charges $9,750 a year – about four times the $2,400 tab at nearby Cuyahoga Community College. Poor students can pay Cuyahoga's tuition with federal grants and don't have to take out loans. Student advisers from Cuyahoga make the rounds at Cleveland area shelters, helping the homeless choose colleges and fill out applications.

And for-profit tuitions are rising fast. Drake hiked its tuition from $4,000 in 2007-2008 to $15,700 this year, which Fadel attributes to new equipment and additional staff. Borrowers who earned bachelor's degrees from for-profit colleges in 2007-2008 had a median debt of $32,653, well above the $22,375 and $17,700 for graduates of four-year private nonprofit and public colleges, respectively.

Such burdens can be difficult for homeless people who are more likely to suffer from mental illness and substance abuse than the general population. Bad credit doesn't go away easily. In the Cleveland shelters, you can still find people with trade school debts from 20 years ago. Those who don't repay their student loans may forfeit their chances for public housing and are also ineligible for federal financial aid to return to college.

Default Consequences

"If the homeless have a bad student loan, they can't find a place to live, they can't go back to school, and in this economy there's not a lot of work," said Ardretta Jones, a case manager at Tacoma Rescue Mission in Tacoma, Washington, "That leaves a person with no options."

Because they don't have to repay their educational loans until they leave school, some homeless students spend beyond their means. Kim Rose, a recovering crack cocaine addict and ex- offender in Raleigh, North Carolina, began pursuing an online bachelor's degree in business last November at Capella Education Co.'s Capella University, based in Minneapolis. At the time she was staying in a drug-free program with Internet access.

Big Splurge

Rose, 38, receives almost $4,000 each academic quarter in federal grants and loans for tuition and living expenses. She splurged last Christmas, spending $700 of her financial aid on presents for her seven-year-old son, who has lived with his grandmother. "I got him everything he wanted," Rose said in a telephone interview. "Games, toys. He's a guitar freak, I got him a guitar. To make up for me not being there."

In February, Rose moved into a shelter where the only computer was broken. As a result, she has struggled to keep up, dropping an English composition course. Rose isn't typical of Capella students, most of whom are midcareer professionals seeking graduate degrees, says university spokeswoman Irene Silber: "We would not intentionally recruit someone who is in a life crisis, much less one as significant as homelessness."

Given the troubled pasts of some homeless students, even a college education hardly assures a well-paying job. Brenda Torchia, another recovering crack cocaine addict in Raleigh who has served several prison terms for drug offenses, was in a shelter and looking online for work when she saw an ad that asked if she wanted to further her education. She answered yes and was directed to the website of a for-profit school called ECPI College of Technology based in Virginia Beach, Virginia.

Placement Test

Torchia applied, passed a placement test, and started ECPI's medical administration program on March 1. The 40-year- old mother of four is borrowing about half of the $23,000 tab from the federal government, with grants and scholarships paying the rest. ECPI officials are aware of her background and "guarantee me a job in the field," Torchia says. "My school is very, very supportive of me. I guess God opened up their hearts to receive me for whom I am."

Torchia's history would be a red flag for health-care employers because hospitals and clinics have drugs on site, says Susan Eget, communications director of the American Academy of Medical Administrators. While ECPI doesn't promise jobs, President Mark Dreyfus says, medical administration offers Torchia's best chance because not all employers check backgrounds and she could process records in a back office where drugs aren't accessible.

In the end, Benson Rollins didn't succumb to Phoenix's hard sell. He is taking a class for his high school equivalency degree and hopes to study law enforcement in college. For now, he would like a job so he can pay child support for his 1-year- old daughter, whom he rarely sees. The Phoenix recruiters, he says, failed to mention a critical point: He would have to take out a government loan at 5 percent to 7 percent interest to pay the $10,000-plus annual tuition. "I'm in a homeless shelter, and money is hard to come by," Rollins says. "It's not worth going to school to end up in debt."

–With assistance from Marybeth Sandell in Stockholm and Rodney Yap in Los Angeles.

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Veterans Failing Shows Hazards of For-Profit Schools in GI Bill

By Daniel Golden

Sept. 23 (Bloomberg) -- Chris Pantzke suffered a brain injury from a car bomb while serving in the Iraq War. Determined to get new skills and make a living after returning home, he joined more than 300,000 veterans taking advantage of a new GI Bill offering college tuition.

These days, Pantzke, who has post-traumatic stress disorder, or PTSD, yells at his wife and punches the wall when he can't understand his homework assignments. He enrolled last year in the online division of the Art Institute of Pittsburgh, owned by the for-profit college company Education Management Corp. His veteran's benefit and other federal aid pay the $20,000-plus annual tab.

Working alone on a computer in his Prince George, Virginia apartment, Pantzke has failed seven of 18 courses and dropped two others. The school rejected his pleas for face-to-face tutoring and simpler homework instructions, he said.

"I stare at the screen and fume and fume," Pantzke, 41, said in an interview. "I'm kind of regretting my decision."

Since the post-9/11 GI Bill with expanded education benefits for returning soldiers took effect Aug. 1, 2009, for-profit colleges have snared $618 million, or 35 percent, of the almost $1.8 billion in tuition and fees spent by U.S. taxpayers, according to the U.S. Department of Veterans Affairs. The industry, which has tripled revenue in the past decade to almost $30 billion by taking advantage of federal loans and grants, is now targeting the more than 1.2 million war veterans deployed since 2001 in Iraq and Afghanistan, and their rich college grants.

Phoenix, Kaplan

Five of the top 10 colleges with the most students funded by the GI bill in April, 2010 were for-profit, mainly on-line institutions, including Phoenix-based Apollo Group Inc.'s University of Phoenix, Washington Post Co.'s Kaplan University, and San Diego-based Bridgepoint Education Inc.'s Ashford University, according to data from the

Chris Pantzke, an Iraq war veteran, poses for an official army portrait. Source: Chris Pantzke via Bloomberg

Department of Veterans Affairs. Of veterans receiving the new benefits, 22 percent have enrolled in for-profit colleges, including Assistant Veterans Affairs Secretary Tammy Duckworth, a disabled Iraq veteran who goes to Capella Education Co.'s online Capella University. About 10 percent of all U.S. college students attend for-profit institutions.

Enrolling at online colleges hampers veterans' reintegration into society and increases their risk of dropping out, said John Schupp, national director of the nonprofit group Supportive Education for the Returning Veteran, which has helped establish veterans-only courses at 10 public campuses nationwide.

"They don't transition sitting next to a computer in their room," Schupp said in a telephone interview.

Growing Scrutiny

While some veterans with families and jobs say online schools provide an opportunity for advanced education that they otherwise couldn't fit into their schedules, the swelling number of ex-soldiers at for-profit colleges is drawing scrutiny from the U.S. Senate education committee, which plans a hearing on the issue later this year. That's because these colleges, which typically charge higher tuitions than public institutions, have been criticized by federal officials and members of Congress for enrolling students who aren't academically ready and are more likely to default on their federal loans.

An undercover investigation by the U.S. Government Accountability Office, whose results were released in a report on Aug. 4, found that recruiters at for-profit colleges encouraged applicants to lie on federal financial aid forms and misled them by exaggerating graduation rates and potential salaries. The U.S. Department of Education is proposing regulations that would crack down on the practice of paying recruiters on the basis of the number of students they enroll.

Graduation Rates

Graduation rates for bachelors' degrees are much lower at for-profit colleges than at other institutions of higher education. Only 22 percent of first-time, full-time candidates at for profit-colleges get their bachelors' degrees, compared with 55 percent at public institutions and 65 percent at nonprofit schools, according to the National Center for Education Statistics.

For-profit colleges including the Art Institute of Pittsburgh's on-line division discount tuitions or waive application fees for veterans and service members, and have teams of recruiters who specialize in enrolling them.

Psychologists who treat veterans say that attending online rather than campus-based programs can delay adjustment to civilian life, especially for the 20 percent of Iraq and Afghanistan veterans who suffer from post-traumatic stress disorder.

'Socially Isolated'

"It may feel more comfortable in the short run to sit at home, but in the long run it's problematic for the veteran with PTSD to be socially isolated," said William Brim, a U.S. Air Force psychologist from 1997 to 2007 and deputy director of the Center for Deployment Psychology in Bethesda, Maryland, which is funded by the U.S. Department of Defense.

"This notion of folks remaining isolated at home flies in the face of the whole movement" to help them reintegrate into communities, said Barbara Van Dahlen, a clinical psychologist who runs a national organization of therapists providing free mental health services to veterans and their families.

Veterans often opt for online programs because they feel out of place on traditional campuses with professors whose political views may offend them and with younger classmates unfamiliar with the reality of war, Van Dahlen said.

Veterans and active-duty service members prefer online for-profit colleges because the education is "focused, 'military-friendly,' disciplined, and open to nontraditional students," said Harris N. Miller, president of the Career College Association, a Washington-based trade group representing for-profit colleges.

Chris Pantzke, an Iraq war veteran, shows pictures he took of a helicopter rescuing wounded service members after his convoy was hit by a roadside bomb in Iraq. Photographer: Britton Staniar/Bloomberg

Avoiding Anxiety

Pantzke, 41, says he chose the Art Institute of Pittsburgh's online division because he thought he would be too anxious in a crowded classroom and he had briefly attended an Art Institute campus in Fort Lauderdale, Florida, from 1988 to 1989.

He told Art Institute officials when he enrolled that he had post-traumatic stress disorder and traumatic brain injury, Pantzke said. He was told that it wouldn't be a problem and the institute had services available, he said. The institute didn't assess how his disabilities would affect his academic performance, he said.

When Pantzke, a former sergeant, contacted the institute before his medical discharge from the Army, its response was, "'Okay, let's start the paperwork," he said. "It was fast and furious."

Bullet Burn

Pantzke graduated from high school in Marshall, Minnesota and became a factory worker, making floating docks and living from one paycheck to the next. He joined the Army in 2004 and was deployed in Iraq in 2005-2006, he said. He was injured late in 2005, when a bomb exploded 125 meters away from him.

"It's like a bullet burn," he said. "When the wave blast goes through your body, it shakes loose the receptors. The nerves don't fire quite right."

Because of his brain injury, Pantzke has trouble following complex instructions, and needs them broken down step-by-step, he said. The institute's accelerated schedule -- each course lasts six weeks -- leaves him struggling to keep pace, he said.

"If they're going to offer online courses to veterans, they need to provide better services," Pantzke said.

When he can't figure out an assignment, he rages. His wife, Rene, "takes the brunt of it," he said. "I lash out at those closest to me."

Pantzke, who would like to get a degree in photography, almost dropped out in February, changing his mind after instructors promised more help. In March, he asked for in-person tutoring and homework that was easier to understand.

School's Response

A school official responded to Pantzke that "we are not able to provide face-to-face tutoring" and that simplified assignments are "typically not considered a reasonable accommodation at the college level," according to a subsequent e-mail to him from Sarah White, assistant director of student affairs.

"I just thought the school would help more," said Rene Pantzke.

In the short autobiography that students are required to post for each course, Pantzke discloses his disabilities.

"School for me is a real struggle because I do not learn like any other student," he wrote for one course. "It takes me a while to understand what is going on."

This profile "should be a signal for every teacher that reads it: This person needs extra help," Rene Pantzke said. "They just don't get it. They don't make any accommodation."

The school's staff "has worked consistently over the past 14 months to address" Pantzke's concerns, Jacquelyn Muller, EDMC's spokeswoman, said in an e-mail. The institute "offers extensive and flexible tutoring services to students at no charge," she said.

Goldman's Stake

Goldman Sachs Group Inc., the New York-based bank holding company, owns 38 percent of the institute's parent company, Pittsburgh-based Education Management. The online division has about 13,000 undergraduates, and 27 percent of its students graduate, Muller said. It has a team of recruiters, financial aid representatives, and academic advisers dedicated to active-duty service members and veterans, “all trained in and focused on meeting your unique needs as a military student,” according to its website.

While President Obama pledged to make improving the efficiency of veterans’ services a top priority in a 2009 speech to the Veterans of Foreign Wars, his administration doesn’t track their college graduation or job placement rates. Even as Veterans Affairs spending on education benefits more than doubled this year to about $9.6 billion, the department stopped auditing the colleges it funds from September 2009 to June 2010.

Federal Followup

“The VA doesn’t do a good job of followup,” Schupp said. “When these guys get out of the military, they’re told to check with the VA. They don’t know who else to trust. The VA helps them fill out paperwork and gives them money, but it doesn’t tell them what schools to avoid or go to. It doesn’t track how well these schools are doing.”

The Veterans Affairs department’s role is to administer benefits, not to recommend one college over another, said Keith Wilson, director of its education service.

“We don’t delve into what a veteran believes is the best mode or location to receive his education benefits,” Wilson said.

The agency is committed to unearthing any waste or fraud in the use of education benefits, Wilson said. While it had to reassign auditors last fall to process claims under the new GI bill, “we didn’t like making that decision,” Wilson said.

Community Colleges

Veterans have other educational options. While some public colleges don’t track veterans on campus or know how many are enrolled, others cater to them with veterans-only classes and centers. Sierra College, a community college in Rocklin, California, encourages veterans to write about their military experience in a “Boots to Books” class. Veterans’ enrollment has doubled in two-and-a-half years, said Catherine Morris, Sierra veterans’ counselor.

Former Marine Corps sergeant Eddie Black is seeking a philosophy degree at a public campus, Portland State University in Portland, Oregon. Class discussions on the morality and literature of warfare “were better than therapy for me,” said Black, a veteran of both Iraq wars and a sergeant in the Oregon National Guard.

The flow of GI Bill money to online for-profit colleges helps these colleges comply with a 1992 law that caps at 90 percent the proportion of their revenue they can receive from federal aid. Tuition paid to for-profit colleges under the GI bill doesn’t count toward the 90 percent ceiling, said Sarah Flanagan, who was the Senate’s specialist in federal student aid when the law passed.

Reshaping Society

The Servicemen’s Readjustment Act of 1944 -- known as the GI Bill -- reshaped American society. It lifted hundreds of thousands of World War II veterans into the middle class through free college educations and low-cost loans to buy homes and businesses, and it democratized elite academic bastions such as Harvard and Yale. Fourteen Nobel Prize winners, three Supreme Court justices, three presidents, 91,000 scientists and 67,000 doctors went to college on the GI Bill, according to “Over Here: How the G.I. Bill Transformed the American Dream,” by Edward Humes (Houghton Mifflin, 2006).

Little remembered is how the landmark bill proved to be a boon to the for-profit colleges of another era. In the law’s first five years, more than 5,000 for-profit trade and vocational schools sprang up, many of questionable quality and catering exclusively to veterans, according to a federal report. Congress responded in 1952 by prohibiting for-profit schools from having more than 85 percent of their students paid for by Veterans Affairs.

Living Allowances

In framing the new GI Bill for post-9/11 veterans, Congress sought to discourage them from enrolling in online colleges. The law, which President Barack Obama co-sponsored as a senator, gives veterans a living allowance only if they attend a ground campus. Based on the college’s zip code, the stipend ranges from less than $1,000 a month in areas with low housing costs to $2,751 in Manhattan.

Legislators omitted Web-only programs out of concern that online for-profit colleges would open offices in cities with the highest housing allowances, said Eric Hilleman, former legislative director of the Veterans of Foreign Wars. The colleges could then lure veterans in Oklahoma or Arkansas by promising them a stipend based on prices in San Francisco or New York, he said.

‘Perfect Microcosm’

Congress also wanted to help today’s veterans reintegrate into society in the same way that the first GI Bill smoothed the transition for soldiers coming home for World War II.

“The campus environment is a perfect microcosm to help veterans readjust,” Hilleman said in an interview. “There’s a ready support network of mental health counseling and career counseling. It’s a strong way to welcome them home.”

Now, for-profit colleges are pushing Congress to change the law, arguing that it’s unfair to online students. Minneapolis-based Capella University urged service members and veterans on Facebook in June to contact legislators to support a housing allowance.

The Senate Veterans’ Affairs Committee approved a bill on Aug. 5 that would give online students a half-stipend. On the House side, a bill filed by Veterans’ Affairs Chairman Bob Filner, a California Democrat, to provide the same stipend for online and campus-based learners, has 30 co-sponsors.

“Everything we needed to have fall into place is falling into place,” said Patrick Campbell, legislative counsel for Iraq and Afghanistan Veterans of America, a New York-based nonprofit group.

Drawn Shades

These days, Pantzke keeps the shades drawn in the rented mobile home in southern Virginia he shares with his wife, 18-year-old son, and two cats. He spends most of his time in a living-room armchair, where he works on the computer during the day and sleeps at night. There’s a fist-sized hole in the wall near the armchair; he punched it in a moment of frustration with a college course. He has picked at his skin until scabs riddle his right hand and arm.

“There’s been several days I’ve been frustrated so bad I’ve thrown my books around the house, I've verbally attacked my wife and son," he said. "I'm just unbearable when I have one of my fits."

Pantzke has been awarded more than $50,000 in financial aid since July 2009, about half of it from the new GI Bill, according to his records. His dissatisfaction boiled over in July in a required course, "Fundamentals of the Internet," when students were asked how they would use absolute and relative pathnames for hyperlinking.

He posted on the bulletin board that he was "done" with the class.

By August, Pantzke logged into his classes so seldom that the school considered him to have withdrawn, he and Muller said. Now, while Pantzke has re-enrolled at the institute, he may transfer to a traditional public campus with in-person tutoring and counseling.

– Editors: Robin D. Schatz, Jeffrey Tannenbaum

Executives Collect $2 Billion at For-Profit Colleges

By John Hechinger and
John Lauerman

Nov. 10 (Bloomberg) -- Strayer Education Inc., a chain of for-profit colleges that receives three-quarters of its revenue from U.S. taxpayers, paid Chairman and Chief Executive Officer Robert Silberman $41.9 million last year. That's 26 times the compensation of the highest-paid president of a traditional university.

Top executives at the 15 U.S. publicly traded for-profit colleges, led by Apollo Group Inc. and Education Management Corp., also received $2 billion during the last seven years from the proceeds of selling company stock, Securities and Exchange Commission filings show. At the same time, the industry registered the worst loan-default and four-year-college dropout rates in U.S. higher education. Since 2003, nine for-profit college insiders sold more than $45 million of stock apiece. Peter Sperling, vice chairman of Apollo's University of Phoenix, the largest for-profit college, collected $574.3 million.

Education corporations, which receive as much as 90 percent of their revenue from federal financial-aid programs, are "private enterprise that's almost entirely publicly funded," Henry Levin, director of Columbia University's National Center for the Study of Privatization in Education, said in a telephone interview.

Students at for-profit colleges are defaulting on their loans at three times the rate of those at private, nonprofit institutions, according to data from the U.S. Department of Education, which is tightening regulation of the industry. The graduation rate for first-time, full-time candidates for four-year degrees at for-profit colleges is 22 percent, compared with 55 percent at state colleges and 65 percent at private nonprofit universities.

'Public Trough'

"For-profit colleges are reaching into the public trough to finance luxurious lifestyles at the expense of people who are going to have to pay back loans," said Levin, a professor at Columbia University's Teachers College in New York.

Ronald Taylor, former co-chief executive officer of Devry Inc., source DeVry Inc. via Bloomberg

John G. Sperling, Apollo's 89-year-old founder and executive chairman, received $263.5 million from stock sales during the last seven years. Robert B. Knutson, retired CEO and chairman of Pittsburgh-based Education Management, the second-largest for-profit college chain by enrollment, got $132.4 million. Dennis Keller and Ronald Taylor, former co-CEOs of DeVry Inc., a Downers Grove, Illinois-based for-profit higher education company, together collected $110.4 million in stock proceeds.

'Appropriate' Rewards

Industry executives deserve to be rewarded because of their records as entrepreneurs and the performance of their companies' stock, said Harris Miller, president of the Washington-based Association of Private Sector Colleges & Universities, which represents the industry.

"If a company has done well, and the market has rewarded executives, that's totally appropriate," Miller said in a telephone interview. "These guys were in it for the long term. They believe in the sector. They weren't in it for a quick buck."

Apollo shares doubled over the last decade, even after dropping almost 40 percent this year because of investor concern that new government regulation will reduce enrollment and profits. Strayer and DeVry shares each more than doubled since the beginning of 2003, even after stocks in the industry declined 32 percent this year through today, according to an index of 13 companies.

Apollo fell 21 cents, or less than a percent, to $36.63 at 4 p.m. New York time in Nasdaq Stock Market composite trading. Strayer declined $2.60, or 1.8 percent, to $144.33. DeVry fell 11 cents, or less than a percent, to $46.79 in New York Stock Exchange composite trading. The education stock index retreated 1.8 percent.

Exceeding Harvard

The windfall to executives at for-profit colleges towers over the rest of higher education.

Harvard University in Cambridge, Massachusetts, pays President Drew Faust $800,000 a year. Shirley Ann Jackson, president of Rensselaer Polytechnic Institute in Troy, New York, received $1.6 million and was the highest-paid president of a nonprofit or public university, according to Chronicle of Higher Education surveys of the most-recent college filings. The median annual pay of presidents at private nonprofit universities was $358,746, compared with $627,750 at large, private research universities, the Chronicle found. Heads of public institutions took home a median $436,111, according to the Chronicle.

At Strayer, Silberman heads a chain of colleges with 54,000 students last year, about the size of New York University, based in lower Manhattan. Silberman's $41.9 million pay package amounted to 32 times NYU President John Sexton's $1.3 million a year.

Soaring Stock

Silberman received a $40 million stock grant in 2009 that vests over 10 years, David Wargo, a Strayer director and former head of the company's compensation committee, said in an e-mail. After

Silberman arrived, Strayer shares rose almost 10-fold through 2009, when the grant was made, Wargo said. Silberman will receive none of the stock if he leaves the company before 10 years, so the grant is aligned with shareholders' long-term interests, making it "consistent with best compensation practices," Wargo said.

Silberman oversees 86 campuses, while NYU centers on New York City, Wargo said. Sondra Stallard, president of Strayer University, the company's primary educational unit, is paid similarly to Sexton, Wargo said.

NYU has 18 schools and colleges in New York and sites abroad, including a degree-granting campus in Abu Dhabi, said university spokesman John Beckman.

University of Phoenix

The enrollment of Apollo's University of Phoenix, 470,000, is about the same as that of the State University of New York system. Apollo co-CEO Charles Edelstein received $6.75 million in the year ended Aug. 31, 2009, 12 times the pay of Nancy Zimpher, who gets $545,000 a year as SUNY chancellor. William Pepicello, president of the University of Phoenix, is a closer comparison with Zimpher and receives cash and stock compensation of $1.8 million annually, said Apollo spokesman Ryan Rauzon.

Over half a century, Apollo's John Sperling, a former college professor raised in a log cabin in the Missouri Ozarks, pioneered the for-profit college industry, Rauzon said. Sperling improved access for the poor, providing courses on demand, online and at night, Rauzon said. The "overwhelming majority" of the shares that John and Peter Sperling sold are founders' stock that had been held for decades, Rauzon said.

The Landscape

"John Sperling had a revolutionary idea, and we think it has changed the landscape of higher education for the better," Rauzon said in a telephone interview. "When you look at him as a founder and entrepreneur who has improved the lives of millions of Americans, that alone explains his compensation."

Dennis Keller, former co-chief executive officer of Devry Inc. Source: DeVry Inc. via Bloomberg

An Aug. 4 report by the U.S. Government Accountability Office, Congress's investigative arm, found that recruiters from Apollo and other for-profit companies misled students about the cost and quality of courses. About 13 percent of University of Phoenix students default in the first two years during which they are required to make payments on their student loans, three times the percentage at private, nonprofit colleges, Education Department data show.

Apollo has eliminated incentive pay for recruiters, monitored phone calls and started a program that lets students sample courses for free before committing, Rauzon said.

Indebted Barista

Jolene Daly, who lives in Turlock, California, borrowed $54,000 to pay for her bachelor's degree from the University of Phoenix. She now works as a barista at a Starbucks Corp. coffee shop, making $8.94 an hour. Apollo should spend less on its executives and more on its instructors, who were poorly qualified and unprepared for courses, she said.

"It's nice to know that that's what I was paying for, because it certainly wasn't the courses," Daly said in a telephone interview. "It's kind of infuriating."

Apollo spends $2.1 billion annually on education and instructional costs, which is more than any other expense and "commensurate with what our students need," Rauzon said.

Seven of the 15 higher education CEOs were paid more than their peers at similarly sized companies, according to Equilar Inc., a Redwood City, California-based executive-pay researcher. Equilar tallied salary, bonuses, long-term incentive pay, stock awards, the value of stock-options grants and perks from SEC filings. Equilar didn't include the change in value of executive pensions.

Annual compensation ranged from Silberman's $41.9 million to $413,000 paid to Donald Graham, chairman and CEO of Washington Post Co., which owns the Kaplan higher-education chain, the nation's third-largest by enrollment.

Silberman's annual compensation would have ranked him eighth on Equilar's list of the highest-paid executives at the largest 1,000 companies. Strayer was too small to make the Equilar list.

Stock Options

Andrew Clark, president and CEO of San Diego-based Bridgepoint Education Inc., ranked second among for-profit colleges in annual pay. His compensation amounted to $20.5 million, according to an SEC filing. Clark's 2009 pay was an anomaly because he received a $19.4 million stock-option grant, most of which was related to the company's April 2009 initial public offering, said Bridgepoint spokeswoman Shari Rodriquez.

The number of students attending for-profit colleges rose to 1.8 million in 2008 from 550,000 a decade before, Education Department data show. Since 1998, annual industry revenue increased almost sixfold, to $33 billion, according to an estimate by Trace Urdan, an analyst with Signal Hill Capital Group in San Francisco.

Transformation

The industry has transformed itself, growing from its roots in trade schools for auto mechanics and massage therapists to offer bachelor's and even graduate degrees. For-profit colleges cater to low-income and minority students often neglected by traditional institutions, the industry group's Miller said. Higher default rates reflect the socioeconomic status of students, rather than the quality of institutions, he said.

Students, not colleges, apply for federal grants and loans to pay tuition and fees, so the companies aren't directly subsidized by taxpayers, Miller said. State and private universities also receive government money, while education companies pay taxes, reducing their cost to the public, he said.

The executives with the biggest gains -- including the Sperlings at Apollo -- sold substantial holdings before their companies' stocks fell because of proposed government rules restricting recruiting and tying federal financial aid to student-loan repayment rates.

To identify those winners, InsiderScore.com, a Princeton, New Jersey, company that analyzes insider transactions, compiled data for the seven years starting in July 2003, when electronic stock-sales data became available.

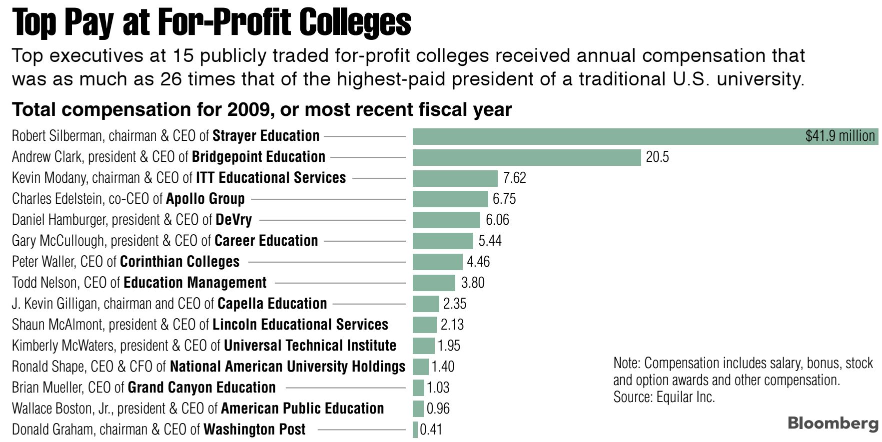
Finding Winners

Share proceeds start with the overall sum received from selling stock over the seven-year period. To approximate gains, InsiderScore then subtracted the value of open-market purchases and the cost of exercising options in that time frame. Because of the limitations of publicly available data, the proceeds may include amounts that executives paid for shares or options in earlier years, including when companies were private.

Not all the shares sold were granted by company boards as compensation. Executives also sold long-time holdings of founders' shares or, in the case of the Washington Post, inherited stock in which the CEO had no ownership interest.

Washington Post

SEC filings show $65.7 million in stock sales during the last seven years under the name of the Washington Post's Graham. The family held the shares for decades, largely in trusts for the benefit of siblings



and their children, according to Post spokeswoman Rima Calderon. Graham acted as a trustee and had "no beneficial interest" in the proceeds of the sales, she said. Graham also transferred stock to his ex-wife, Mary Graham, Calderon said. None of the stock originated as compensation to Graham, she said. Filings confirm her account.

The SEC is conducting an informal inquiry into Apollo's insider share sales. The inquiry relates to disclosures of information about an early 2009 Education Department review of Apollo's operations, the company said Oct. 26. Apollo said it was cooperating.

John Sperling and his 50-year-old son, Peter, have sold a combined $837.8 million in Apollo shares since 2003, filings show.

The Sperlings have been diversifying their investments, selling shares during SEC-sanctioned "windows" for disposing of stock, Rauzon said. On Nov. 1, Apollo said it would initiate a trading plan for the Sperlings that would further restrict the timing of stock sales. The father and son still hold Apollo shares valued at about $770 million, filings show.

Fighter Pilot

Education Management's Knutson, who made $132.4 million in stock sales, is also a founder. Starting with the Art Institute of Pittsburgh, Knutson, a former fighter pilot and Wall Street banker, built a national chain that now has 158,000 students.

In 2006, Knutson, then CEO, sold Education Management to a group of private-equity firms, led by Goldman Sachs Group Inc., for $3.4 billion. Education Management, which went public again in October 2009, now has a market value of about $2 billion. Jacquelyn P. Muller, a spokeswoman for Education Management, declined to comment on Knutson's stock sales.

DeVry's Keller and Taylor, who founded for-profit Keller Graduate School of Management in 1973, bought Oakbrook Terrace, Illinois-based DeVry in 1987. Their combined stock sales of $110.4 million reflect decades of investment in DeVry, Joan Bates, a company spokeswoman, said in an e-mail.

"Dennis and Ron were entrepreneurs who started this organization from scratch," Bates said. "They made tremendous sacrifices and took on a great deal of financial risk." Taylor remains a DeVry director and senior adviser. Keller retired in 2008 and is a senior adviser.

Using Fortunes

For-profit college executives have used their fortunes to fund outside investments and interests.

Peter Sperling owns a Santa Barbara estate with a $20 million tax value. He is selling a "neoclassical villa and guest house" in San Francisco, which is on the market for

$47 million, according to a listing. Rauzon declined to comment on Sperling's property.

Keller has been a trustee of both his alma maters, Princeton University in Princeton, New Jersey and the University of Chicago, two of the nation's wealthiest nonprofit colleges. He has given at least $50 million combined to the two universities, according to announcements from the institutions. Princeton named an engineering education center in his honor. DeVry won't comment on Keller's philanthropy, Bates said.

Student Loans

Maria Avila recently got her master's degree in business administration from DeVry's Keller Graduate School of Management and also has a bachelor's from DeVry. A 44-year-old single mother and Mexican immigrant, she is featured in a promotional online video of school success stories.

Avila owes $74,000 in student loans, which she must repay on a $40,000-a-year salary as an accounting clerk for a Chicago television station, she said. Keller should have given money to a scholarship fund at DeVry, Avila said. Bates declined to comment.

"I'm like, 'Give it to me,'" Avila said. "I need it."

– With assistance from Stephen Grove in New York. Editors: Robin D. Schatz, Jeffrey Tannenbaum

Your Taxes Support For-Profits as They Buy Colleges

By Daniel Golden

March 4 (Bloomberg) – ITT Educational Services Inc. paid $20.8 million for debt-ridden Daniel Webster College in June. In return, the company obtained an academic credential that may generate a taxpayer-funded bonanza worth as much as $1 billion.

ITT Educational, the U.S.'s third-biggest higher education company with a market value of $3.8 billion, may increase it by 26 percent, or $1 billion, within five years because of the purchase of 1,200-student Daniel Webster in Nashua, New Hampshire, according to Michael Clifford, an investor in Del Mar, California, who has participated in the acquisitions of four nonprofit colleges. At least 75 percent of new revenue would come from access to the more than $100 billion a year in financial aid the U.S. hands out to college students, he said.

Key to tapping that money is Webster's regional accreditation, which is the same gold standard of academic quality enjoyed by Harvard University and helps students transfer course credits from one college to another. Daniel Webster's accreditation was its "most attractive" feature to ITT Educational, said Michael Goldstein, an attorney at Dow Lohnes, a Washington law firm that has represented the company. "Companies are buying accreditation," said Kevin Kinser, an associate professor at the State University of New York at Albany, who studies for-profit higher education. "You can get accreditation a lot of ways, but all of the others take time. They don't have time. They want to boost enrollment 100 percent in two years."

Exploiting Loopholes

The nation's for-profit higher education companies have tripled enrollment to 1.4 million students and revenue to $26 billion in the past decade, in part through the recruitment of low-income students and active-duty military. Now they're taking a new tack in their quest to expand. By exploiting loopholes in government regulation and an accreditation system that wasn't designed to evaluate for-profit takeovers, they're acquiring struggling nonprofit and religious colleges – and their coveted accreditation. Typically, the goal is to transform the schools into online behemoths at taxpayer expense.

For-profit education companies, including ITT Educational Services, based in Carmel, Indiana, and Laureate Education Inc., in Baltimore, have purchased at least 16 nonprofit colleges with regional accreditation since 2004, according to corporate announcements and filings with the U.S. Securities and Exchange Commission. Jack Welch, the former chief executive of General Electric Co., and Michael Milken, the U.S. junk bond pioneer, have invested in for-profit companies that bought or formed partnerships with nonprofit, regionally accredited schools.

Academic Status

By acquiring regional accreditation, trade and online colleges gain a credential usually associated with the traditional academic culture of liberal arts, faculty scholarship and selective admissions. Normally the accreditation process takes about five years and requires evaluations by outside professors. The regional bodies examine financial stability, academic rigor and commitment to "teaching, learning, service and scholarship," according to the Web site of the Commission on Institutions of Higher Education, which accredits colleges in New England.

Enrollment at Grand Canyon University, a Christian college in Phoenix bought by investors in 2004, has soared to 37,700, as of Dec. 31, up from 1,500, said Brian Mueller, chief executive of Grand Canyon Education Inc. Ninety-two percent of students now take classes online, according to the company's most recent 10-K. Bridgepoint Education Inc., based in San Diego, has boosted enrollment of two regionally accredited colleges it bought in 2005 and 2007 to 53,688 students as of Dec. 31, up from 400 combined, according to a company filing. Ninety-nine percent of those students take courses exclusively online.

Growth Potential

Daniel Webster "could parallel Grand Canyon or Bridgepoint's growth curve," said Clifford, who was part of the investor group that purchased Grand Canyon.

ITT Educational rose two cents, or less than one percent, to $109.80 at 4:15 p.m. today in Nasdaq stock market trading. The company rose 2.5 percent in the 12 months ended today.

ITT Educational declined to comment for this story. The company plans to open more Daniel Webster campuses and also expand online offerings, Kevin Modany, ITT Educational's chairman and chief executive officer, said in a Feb. 22 presentation to analysts. The company expects to introduce programs including accounting, education and health sciences, he said.

Daniel Webster will attract more students "a little on the higher end" in income whose tuition would be paid by private employers rather than federal financial aid, Modany said.

New Regulations

The U.S. Department of Education, which doled out $129 billion in federal financial aid to students at accredited postsecondary schools in the year ended Sept. 30, is examining whether these kinds of acquisitions circumvent a federal law that new for-profit colleges can't qualify for assistance for two years, Deputy Undersecretary of Education Robert Shireman said in a telephone interview.

Under federal regulations taking effect July 1, accrediting bodies may also have to notify the secretary of education if enrollment at a college with online courses increases more than 50 percent in one year.

"It's an area that we are watching closely," Shireman said. "It certainly has been a challenge both for accreditors and the Department of Education to keep up with the new creative arrangements that have been developing."

Immediate Benefits

Buying accreditation lets the new owners benefit immediately from federal student aid, which provides more than 80 percent of revenue for some for-profit colleges, instead of having to wait at least two years. Traditional colleges are also more inclined to offer transfer credits for courses taken at regionally approved institutions, making it easier to attract students nationwide.

The six nonprofit regional accrediting bodies, which rely on academic volunteers, bestow the valuable credential with scant scrutiny of the buyers' backgrounds, Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars & Admissions Officers in Washington, said in a telephone interview.

While accrediting bodies treat these purchases as changes of ownership, the acquisitions, in reality, create new colleges that should be required to earn certification from scratch, Kinser said.

Maintain Mission

For accreditation to continue once the college is sold, the buyer must promise not to change its mission, Steven Crow, former executive director of the Chicago-based Higher Learning Commission, the largest regional body, said in a telephone interview. Once accreditation is maintained, the acquirer seeks permission, which is usually granted, to start branch campuses and online programs, Crow said.

"You knew by month six they would come back to you with a new game plan," said Crow, now a consultant to publicly traded Corinthian Colleges Inc., based in Santa Ana, California. It acquired regionally accredited San Francisco-based Heald College on Jan. 4.

Obama administration officials have recently questioned whether the accreditation system is effective in protecting academic standards. Accrediting decisions lack transparency and take too long, Undersecretary of Education Martha Kanter said in a Jan. 26 speech in Washington to the annual meeting of the Council for Higher Education Accreditation.

Considering Termination

The inspector general of the Education Department in December urged the agency to consider terminating recognition of the Higher Learning Commission, which has approved more for- profit colleges than its counterparts around the country.

The inspector general criticized the commission's decision to accredit Career Education Corp.'s online American Intercontinental University, citing concerns about how much time students spent in class. The approval was appropriate, the commission and Hoffman Estates, Illinois-based Career Education said.

More vigilance by the Education Department and accrediting groups is likely to slow enrollment growth and the share prices of higher education companies that rely on acquisitions, said Clifford. While publicly held postsecondary education companies rose 29.9 percent in the 12 months ended March 3, they lagged behind the S&P 500, which increased 60.7 percent over the same period, said Jeffrey Silber, an analyst for BMO Capital Markets in New York. The shortfall reflected investors' fears of tighter federal regulation of for-profit colleges, Silber said.

Accreditation's Worth

Regional accreditation is worth $10 million to a for-profit acquirer, Clifford said in a telephone interview. That's how much it would cost to start a regionally accredited college, a process that can take 10 years and has only a 50-50 chance of success, he said. On top of the $10 million, buyers typically pay $23,000 to $50,000 per enrolled student, making the purchase of Daniel Webster a bargain, Clifford said.

Clifford and his fellow investors popularized the strategy of acquiring nonprofit colleges with regional accreditation by purchasing Grand Canyon University in 2004 and building online enrollment.

Grand Canyon "is the same institution," Mueller said in an e-mail. "It was important to the new leadership group that the mission of providing a high-quality Christian-based education remain intact."

Grand Canyon, which went public in November 2008, derived 83 percent of its revenue from federal financial aid in 2009, according to a company filing.

Bridgepoint, Ashford

Bridgepoint Education bought the regionally accredited Franciscan University of the Prairies in 2005 and Colorado School of Professional Psychology in 2007. It renamed them Ashford University and University of the Rockies, respectively, and refocused them online. Ashford gained 86 percent of its revenue from federal student aid in 2009 and University of the Rockies got 85 percent, according to a 10-K filing by Bridgepoint, which went public in April.

"There are several meaningful continuities" from the colleges before they were acquired, including campus athletic and social events, Shari Rodriguez, a Bridgepoint spokeswoman, wrote in an e-mail.

Clifford participated in the 2008 purchase of Myers University in Cleveland, which was renamed Chancellor University. Chancellor attracted Welch as an investor last year and named its new online management institute after him. Welch collaborated with faculty in developing curricula for a master's program in business administration, Clifford said.

'Something New'

"We chose to work with Chancellor University because it gave us the flexibility to start something new," Welch said through a spokeswoman, Betsy Linaberger. "As a for-profit venture, we have the resources to invest in the student experience and the very best faculty, and we want to provide a high quality business education."

Knowledge Universe Learning Group, chaired by Milken, entered into a partnership in 2007 with regionally accredited Sierra Nevada College in Incline Village, Nevada, agreeing to provide as much as $15 million in return for an opportunity to share in online revenue, Geoffrey Moore, a senior adviser to Milken, said in an e-mail. The company is a unit of Santa Monica, California-based Knowledge Universe Inc., of which Milken is co-founder and chairman. Knowledge Universe Learning Group has three seats on the nonprofit college's nine-member board, Moore said.

'Existing Character'

"This partnership preserved the existing character of Sierra Nevada College," he said. "That was important to us and the college."

A 2006 regulatory change fostered online growth and made takeovers more attractive, said Silber, the BMO analyst. That year, Congress eliminated a rule prohibiting colleges that offered more than half of their courses online from receiving federal financial aid.

ITT Educational Services Inc. didn't buy

Daniel Webster just for its 52-acre red-brick campus and science and technology programs including training pilots and air traffic controllers.

"Regional accreditation was very important" to the company, said Goldstein, co-leader of the higher education practice at Dow Lohnes. "I don't think there's any question that was the most attractive element."

Of the $20.8 million purchase price, $20.6 million went to pay off the college's debt, according to an ITT Educational 10-Q filing.

Making Changes

ITT Educational Services, which was spun off from ITT Corp. in the 1990s, wasted no time making changes at Daniel Webster. It renovated a main building and razed a dilapidated dormitory. It also dismissed one fourth of the staff, fired President Robert Myers, and has been accused by faculty members of misleading the New England accreditor, the Commission on Institutions of Higher Education, based in Bedford, Massachusetts.

"ITT didn't really have much interest in anything other than having acquired a regionally accredited institution," said Myers, now president of the New England Culinary Institute in Montpelier, Vermont. "If I had it to do all over again, I wouldn't have gone anywhere near ITT. The fundamental nature of the college has changed."

"We're making fantastic progress with the cultural assimilation" of Daniel Webster, Modany said in a Jan. 21 call with analysts. "Things are going really well there, great group of staff and faculty, and everybody is getting on board."

'Something Different'

Barbara Brittingham, director of the Commission on Institutions of Higher Education, declined to comment on its approval of the Daniel Webster sale.

In general, "when these institutions are bought, they are not at the moment successful in the financial sense or they wouldn't be for sale," Brittingham said. "There's an understanding that whoever buys them is going to want to do something different."

Accreditation is higher education's way of regulating itself. The nonprofit associations set standards on financial stability, governance, faculty and academic programs and use volunteers from college presidents to professors to assess quality. It is a peer review system: a marketing professor is more likely than a poet to evaluate a business school.

For more than a century, regional organizations have evaluated most public and private universities. Starting in the 1950s, leaders of for-profit colleges, which were then ineligible for regional approval, established seven national accrediting bodies for career education and training. The regions dropped their for-profit ban in the 1960s.

Cachet, Credits

Apollo Group Inc.'s University of Phoenix, whose enrollment of 455,600 makes it the nation's second-largest university behind the State University of New York system, is accredited by a regional body, the Higher Learning Commission. Students enrolled at both regionally and nationally accredited colleges can receive federal grants and loans.

Regional accreditation is important to for-profit colleges because students are attracted to its cachet and can transfer course credits more easily. Only 14 percent of nonprofit universities accept credits transferred from nationally certified schools, according to a 2006 study by the University Continuing Education Association, in Washington.

The six regional associations scrutinize takeovers of nonprofit colleges in advance, and then follow up afterward, accrediting officials said in telephone interviews. They could cite few, if any, cases in which they refused to continue accreditation, they said.

Heald Purchase

Corinthian Colleges' past difficulties with California state regulators didn't matter to accreditors when it purchased Heald Capital LLC, parent company of Heald College, for $395 million. Corinthian, the country's seventh-largest higher education company by market value, has more than 100 campuses in North America, and had 106,052 students as of Dec. 31, including Heald, said Anna Marie Dunlap, a Corinthian spokeswoman.

Corinthian paid a $6.5 million settlement in July 2007 to the California attorney general's office, over allegedly misrepresenting graduates' job placement rates and salaries. It also agreed to cease enrolling students in 11 programs at nine campuses. The Santa Ana, California-based Corinthian said in a 10-K filing that it didn't admit wrongdoing.

"We strongly disagreed with the Attorney General's conclusions, but we are pleased to have settled the matter," Dunlap said in an e-mail.

Exclusively Online

Regionally accredited Heald College had 11 campuses with 12,900 students, primarily in two-year health-care and business programs, as of Dec. 31. The college was nonprofit before its purchase in 2007 by Palm Ventures LLC, a Greenwich, Connecticut, investment company. Heald expects to start enrolling exclusively online students this year, Corinthian Chief Executive Peter Waller wrote in an e-mail.

The Accrediting Commission for Community & Junior Colleges in Novato, California, which certifies two-year institutions in California and Hawaii, approved the change in Heald's ownership.

"We judge the college we accredit," said Barbara Beno, president of the commission. "It would be unfair to say, 'Heald, you've been bought by a parent corporation that doesn't have as fine a track record as you do. Therefore, we'll condemn you,'" she said in a telephone interview.

Heald will "continue to meet ACCJC's accreditation standards and eligibility requirements," Waller said.

The scrutiny "doesn't remotely satisfy the sloppiest of due-diligence requirements," said Nassirian of the American Association of Collegiate Registrars & Admissions Officers. "There is no methodical review of who has bought the college. If the Cosa Nostra applied, you would think you'd take a look."

'Same Animal'

The nation's biggest regional accreditor is starting to take a closer look. The Higher Learning Commission, which certifies more than 1,000 colleges from Arkansas to Wisconsin, stiffened its rules on ownership changes last year.

Buyers must wait from one to four years to reapply for accreditation if the college won't stay "the same animal," President Sylvia Manning said in a telephone interview. The commission now charges $10,000 for ownership changes to pay for more extensive research. New owners must be approved by its board, rather than at the staff level, Manning said.

The commission applied its newfound rigor to Mayes Education Inc.'s purchase of Waldorf College in Forest City, Iowa, putting the brakes on online expansion. A subsidiary of online privately held Columbia Southern University in Orange Beach, Alabama, Mayes agreed in May to buy the assets of Waldorf, an Evangelical Lutheran college with 500 students, for an undisclosed sum. The deal closed on Jan. 8.

Approval Condition

As a condition of approval, the commission stipulated that Waldorf can't offer online-only degrees at least until 2011- 2012. Mayes Education plans to boost Waldorf's enrollment to 2,300 students in three years through programs combining online classes with face-to-face instruction at temporary sites around the country, Jessica Brown, a spokeswoman for Columbia Southern, said in a telephone interview.

The sale "barely made it through" the commission, former Waldorf president Richard Hanson said in a telephone interview.

"Columbia Southern wanted to ramp up the online program quickly. The commissioners said, 'If we maintain accreditation, Waldorf has to remain the college we know.'"

Columbia Southern wasn't the only for-profit that expressed interest in buying Waldorf, Hanson said. Another company that lacked regional accreditation also contacted him: ITT Educational Services.

ITT Educational, runs 120 nationally accredited technical institutes with 80,000 students, most of whom pursue associate degrees.

Graduation Rate

The cost of attending an ITT Technical Institute, including tuition, fees and off-campus room and board, was $26,775 in 2008-09, according to the National Center for Education Statistics. Of students who entered ITT's two-year schools in 2004, 29 percent graduated. ITT derived 70 percent of its 2009 revenue from federal financial aid, according to a company filing.

ITT Educational is in the preliminary stages of seeking regional accreditation for its technical institutes through the Higher Learning Commission, which sent a team to visit the company in late 2009, a commission spokeswoman, Susan Van Kollenburg, said in an e-mail. The commission hasn't acted on this evaluation, she said.

Daniel Webster is ITT Educational's first regionally accredited campus. Founded in 1965 as the New England Aeronautical Institute, the college is tucked beside Nashua's municipal airport, and keeps its fleet of Pipers and Cessnas there. The campus includes an aviation center, a library, an administration building, classrooms, dormitories, and a student center called the Common Thread.

'Good Reputation'

Over the years, the college expanded from flight instruction into training air traffic controllers and airline managers, as well as teaching computer science, engineering, and business.

It has "a longstanding good reputation," said Gary Kiteley, executive director of the Aviation Accreditation Board International in Auburn, Alabama, which licenses the college's aviation programs.

Financially, Daniel Webster never enjoyed a cushion. With an endowment that peaked at about $3 million in 2008, it relied on tuition revenue, Myers said. The airline industry's decline after 9/11 and the collapse of Internet stocks hurt enrollment in aviation and computer science, said former provost Michael Fishbein, who said he suffered a heart attack from the stress of keeping the college alive.

Red Ink

Just as trustees reached consensus on a strategic plan in 2008, fuel costs skyrocketed, and "we were running red ink again," Rodney Conard, the former chairman of the board, said in a telephone interview.

The Commission on Institutions of Higher Education and the U.S. Department of Education expressed concerns that Daniel Webster didn't meet their financial standards, placing its accreditation and eligibility for federal aid in jeopardy, according to a filing last April 23, by the college in a New Hampshire court.

ITT Educational contacted Myers in December 2008, he said. Modany visited Daniel Webster the next month, and the parties reached agreement in April. The acquisition would enable the company to target a more upscale audience, Modany told Wall Street analysts on April 23.

While ITT Educational's institutes drew unskilled "career changers," the regionally accredited college would appeal to "career advancers" seeking to enhance their capabilities, Modany said. The Commission on Institutions of Higher Education approved the sale that same month.

'Public Interest'

"It's in the public interest to have these small institutions continue to function," said Bruce Mallory, a commission member and education professor at the University of New Hampshire in Durham. "If a proprietary school can come in, continue to provide the same level of education and assure viability, that's all for the better."

Modany promised to leave Daniel Webster's administrators in charge because they were experts in running a four-year residential college, Myers and Fishbein said. At a campus event introducing the ITT Educational chief executive to the college community, Modany said the company was growing and there would be ample job opportunities, said Myers.

Growing Suspicions

As Myers negotiated the sale, he came to suspect that the company wasn't being forthright about its intentions, he said. When he and Conard, who chaired the college's board of trustees, worked out at a YMCA a week before the June closing, they discussed canceling the deal, Myers said. Only after consulting colleagues did they decide to go through with it, he said.

"We had lots of conversations when it was on the table," said Conard, a management consultant. "Should we take it? We didn't have to take it. There was a point where we realized, they were going to be more businesslike about it. It didn't feel as comfy as we were hoping."

Going through with the sale was the right decision, Conard said.

"ITT is in this for the long haul, and I'm very comfortable with where they plan to take Daniel Webster," Conard said.

Another former trustee, Cathy Trower, went along with the sale as a last resort to save the college and honor commitments to students, she said.

"A for-profit should not be able to buy accreditation," Trower, a research director at Harvard University's Graduate School of Education in Cambridge, Massachusetts, said in a telephone interview. "To me, that's almost like buying a degree and not actually earning it."

Duplicating Functions

In July, ITT Educational dismissed more than 20 Daniel Webster employees, Myers said. It believed they were duplicating functions that the company's corporate offices in Indiana could provide, two people familiar with the company's thinking said. ITT Educational also replaced Conard, Trower and the other trustees.

Appointees to the college's new board included Charles Cook, former director of the Commission on Institutions of Higher Education, which accredits Daniel Webster. Cook soon resigned because of a potential conflict of interest with his position as a director of Corinthian's Heald College, he said in a telephone interview.

"I was never substantively involved with Daniel Webster," Cook said.

Questioning Changes

At the time of the firings, Myers was circulating a draft report questioning whether some of ITT Educational's changes were in accord with the standards of the accreditation commission, which call for a faculty role in curriculum and governance, he said.

"ITT came in and said, 'We only want faculty to teach,'" Myers said. "We'll develop curricula in Carmel, Indiana, and give them to you."

On August 5, ITT Educational ousted him, Myers said. Nadine Dowling, director of the Woburn, Massachusetts, campus of ITT Tech, became interim president.

In an unusual move in credential-conscious academia, ITT Educational also named an assistant professor without an advanced degree to a deanship. When Triant Flouris, who has a doctorate and has written four books, resigned as dean of aviation sciences, he was replaced by David Price, who only has a bachelor's degree.

Price is weeks away from completing a master's degree at Daniel Webster, and will enroll in a doctoral program in the coming academic year at President Dowling's request, he said in a telephone interview. "ITT has continued the strong emphasis we've always had on getting a higher degree," he said.

Fewer Worries

The biggest difference at Daniel Webster under new ownership is "worrying less," Price said.

"There are a lot of schools that would just go under, students would be out of a school, faculty and staff would be out of a job that they love passionately. I'm allowed to stay in the position I'm in because of ITT."

In November, faculty members told a team from the New England commission visiting the campus that ITT Educational had rewritten a college self-study report prepared by professors and staff for the accrediting group. Faculty members complained that the company's revisions glossed over inadequacies in such areas as governance, according to two people who attended the session.

When asked about the allegations concerning the self-study report, Richard Schneider, president of Norwich University in Northfield, Vermont, who chaired the team, said that in his experience colleges don't try to deceive accrediting bodies.

Facebook Group

About 450 people have joined a Facebook group entitled, "I went to Daniel Webster before it sold out," including Chad Los Schumacher, 20. After his sophomore year at Daniel Webster, where he majored in homeland security and joined the paintball club, Los Schumacher transferred for the current academic year to Saint Leo University in Saint Leo, Florida.

"It was a very hard decision to come to, but I knew I could not stay there," Los Schumacher said.

Los Schumacher was bothered by an ITT Educational policy that students receiving financial assistance through work-study programs sign an agreement that the company owned their intellectual output, he said.

"If I created the next Facebook or Twitter, it would be theirs," Schumacher said.

Matthew McInnis, a flight operations major, stayed at Daniel Webster.

"A lot of big names in aviation have come through here and taught here," the senior from Beverly, Massachusetts, said as he headed to the aviation center on Jan. 27. "Looking in the long term, the ITT buyout should add value. Hopefully, it will attract better professors and more students."

Personnel Moves

The personnel moves took New Hampshire regulators aback, the officials said.

ITT Educational "did give me the sense they would continue as before," said Kathryn Dodge, executive director of the New Hampshire Postsecondary Education Commission, in Concord, which approved the sale in May. "We did not expect to see the turnover in staffing happen when it happened."

As a result of the Webster case, Dodge said, she is proposing to require colleges in ownership transition to outline plans for faculty and staff contracts and internal governance.

"It's a cultural issue," Dodge said. "Unless we're extremely specific in our requests, for-profits aren't as forthcoming as nonprofits."

–With assistance from Marybeth Sandell in Stockholm.

Editors: Robin D. Schatz, Jeffrey Tannenbaum

Bloomberg News

Kaplan Quest for Profits at Taxpayer Expense Ensnares Veteran

By Daniel Golden

The Washington Post Co. headquarters in Washington. Photographer: Andrew Harrer/Bloomberg

Nov. 1 (Bloomberg) -- After Keith Melvin, a disabled and decorated veteran, returned from Iraq, he wanted to earn a bachelor’s degree in legal studies.

He filled out a form on a website, and recruiters for online for-profit Kaplan University contacted him. They told him the government would pay his tuition, that he could move on after graduation to Kaplan’s law school, and that he could trust Kaplan because the prestigious Washington Post Co. owns it, Melvin said in a telephone interview.

When Melvin hesitated, Kaplan admissions adviser Wendy Robinson warned him in an e-mail that “I came very close to letting your space go to another student” -- even though online colleges don’t have the physical limits of traditional campuses. Melvin enrolled at Kaplan in March 2009, and rues it. His federal grants didn’t come through, and the unemployed construction project manager couldn’t afford the tuition. Kaplan blocked his online access to classes and sent his $4,125 overdue bill to a collection agency, he said.

“With Kaplan having its credentials backed by the Washington Post, I thought, ‘How can this go wrong?’” Melvin said. “It sounded too good to be true, and it was.”

Repeated Calls

Melvin is among thousands of returning veterans enticed by for-profit colleges through repeated phone calls and e-mails, advertising in military-oriented publications, and alliances with veterans’ organizations eager for corporate contributions. Admissions advisers woo veterans with visions of high-paying jobs and easy access to federal grants. While some veterans succeed at these colleges, others are hindered by red tape in getting federal funding and the inability to complete degrees and find well-paying jobs after graduation.

Aggressive recruiting by for-profit colleges leads to low graduation rates, said Donald Overton, executive director of Veterans of Modern Warfare, a service organization in Silver Spring, Maryland, which has 5,000 post-1990 veterans as members.

“As long as the recruiters meet their quotas and bring in veterans, their job is done,” Overton said in a telephone interview. “The colleges are lacking support services, and their programs are fast-paced.”

Active Recruiter

Kaplan University has become one of the most active colleges in the U.S. in targeting veterans -- and the increased government funds for their tuitions. 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. Kaplan University ranked third among U.S. colleges in 2009 in the number of students funded by veterans’ benefits, behind two other for-profit institutions, the University of Phoenix and Charles Town, West Virginia-based, American Public University System, according to the department.

Two-thirds of Kaplan’s students drop out, Kaplan spokesman Ron Iori said in an e-mail. Its graduates earn less than the national average, according to Payscale, a Seattle-based online provider of employee compensation data.

Kaplan recently curtailed some of the practices that brought in veterans, such as paying recruiters based on how many students they enroll. It offers a course for new students in academic strategies as well as online tutoring in math and writing, and has a higher graduation rate than many traditional schools that also serve a predominantly low-income student body, Iori said.

‘Fear, Uncertainty’

Formed in 2004, Kaplan’s military team has 300 admissions advisers, financial aid counselors, and academic advisers based in Florida and Chicago, Iori said. Admissions advisers are trained to recruit veterans by sowing “fear, uncertainty, doubt” about competing colleges, according to a 2009 Kaplan manual obtained by Bloomberg News.

About 11,000 Kaplan University students, or 15 percent of its enrollment, are veterans, active-duty service members or military spouses, up from 8,500 a year ago, Iori said.

Kaplan markets to the more than 1.2 million veterans of the Iraq and Afghanistan wars by advertising in Army Times, Navy Times and G.I. Jobs magazine, exhibiting at job fairs for current and former service members, and sponsoring events held by Amvets, the country's fourth-largest veterans' organization.

Once known primarily for preparing high school students for the SAT, Kaplan derived 64 percent of its revenue in the quarter ended July 4 from its higher education division, which includes predominantly online Kaplan University, with 75,000 students, as well as Kaplan colleges, which have 37,000 students on 60 campuses.

Post's Lifeblood

The higher education division contributed \$1.54 billion in 2009 to Washington Post Co.'s revenue of \$4.57 billion, or about one-third. Federal student aid accounted for about \$1.3 billion of the division's revenue. Kaplan also reaped millions of federal dollars from the Department of Veterans Affairs and the Defense Department to educate veterans and active-duty service members.

"Kaplan higher education is the lifeblood of the Washington Post, and military students and veterans have become an increasingly large component of Kaplan higher education," said Bradley Safalow, chief executive of New York-based PAA Research, which analyzes higher education stocks.

Washington Post Co. shares have dropped 26 percent since closing at a 52-week high April 15 as Kaplan and other for-profit colleges have come under scrutiny this year by Congress, the Department of Education, and the Government Accountability Office.

Duncan's Concern

Senate and House committees are examining how for-profit colleges recruit current and former service members, while U.S. Secretary of Education Arne Duncan expressed concern Sept. 24 in an interview that the schools are pursuing veterans' benefits to circumvent a law limiting the proportion of their revenue they can derive from federal aid to 90 percent.

Enrolling veterans helps Kaplan stay below the threshold because GI Bill benefits don't count as government assistance under the law. Kaplan University, which derived 87 percent of its revenue from federal student aid in 2009, may have exceeded 90 percent if revenue from the GI Bill and Department of Defense tuition assistance for active-duty service members were added, said Safalow of PAA Research.

'Military-Friendly'

Kaplan helps veterans who are often overlooked by traditional colleges, said spokeswoman Melissa Mack.

"Active-duty military personnel and veterans are often under-served by traditional institutions," Mack said in an e-mail. "Kaplan has received significant interest from veterans because of our military-friendly practices."

Veterans "ought to be the folks that should be educating our children, running for public office, and leading us in our corporate boardrooms," Brian Sayler, Kaplan director of military affairs, said in an August 12 speech to the Amvets national convention in Louisville. "So our mission is to see that veterans are better represented" in colleges.

Donald Graham, chief executive of the Washington Post Co., declined to comment.

Kaplan's online courses enable veterans to juggle jobs and family, said Justin Whitehead, a Kaplan University student who served as an Army communications specialist.

"Online is 100 times better," the 27-year-old networking technology major, who is married with a daughter and works as a technical support representative for BPM Microsystems in Houston, said in a telephone interview. "I don't have to spend the time in traffic trying to go to night school."

Harder Courses

Kaplan courses are "harder than any state college," said another student, Air Force veteran Thomas Vidal-Engaurran. When he wanted to switch majors from business management to criminal justice, "I called my guidance counselor on a Monday, and I was enrolled in criminal justice courses by Friday," said Vidal-Engaurran, 27. "I didn't miss a beat."

To ensure that prospective students are a good fit, Kaplan University in September began to allow undergraduates, including veterans, to attend classes for a trial period -- and then opt out without owing any tuition.

Complying with the education department's pending ban on incentive compensation, Kaplan has stopped linking pay for admissions advisers to the number of students they bring in who start classes, Iori said. Kaplan also suspended enrollment at two of its campuses after an undercover GAO investigation released Aug. 4 found recruiters were exaggerating how much applicants could earn from a Kaplan education. The GAO report prompted Florida's attorney general to open an investigation into Kaplan and other for-profit colleges. Kaplan intends to cooperate fully, Iori said.

'Unusual' Penalties

In May 2009, the Department of Veterans Affairs revoked approval for a Kaplan campus in Fort Worth, Texas, to train veterans, as a result of deficiencies in keeping student records. After Kaplan corrected the problem, the department reinstated the campus in July 2009.

The VA withdraws approval for about 40 campuses a year, or less than 1 percent of the 6,500 educational institutions authorized for veterans' benefits.

"It's pretty unusual for us to have to go to that degree of penalty," Keith Wilson, director of the VA's education service, said in an interview. "We would have liked to see them respond quicker."

Kaplan "inadvertently failed" to respond to the finding that five student files lacked proper transcripts, and the suspension didn't ultimately affect students' VA benefits, Iori said.

Graduation Rates

Only 22 percent of first-time, full-time candidates for four-year degrees at for-profit colleges graduate, compared with 55 percent at public institutions and 65 percent at nonprofit private schools, according to the National Center for Education Statistics.

At Kaplan University, which doesn't make public a graduation rate for veterans, 30 percent of two-year students and 33 percent of four-year students earn degrees, Iori said. Many students come from low-income and minority populations and are the first in their families to attend college, increasing the chance they will drop out, he said.

Recipients of bachelor's degrees at Kaplan University from 2006 to 2010 have a median salary of $38,100, below the national average of $40,500 for recent four-year graduates, according to Payscale. People with master's degrees in business administration from Kaplan earn $41,800, compared with $59,600 for all MBA's.

Corporate Hiring

While they hire applicants with online degrees for entry-level jobs, many Fortune 500 companies seeking veterans for leadership development programs prefer graduates of traditional colleges, said Drew Myers, chief executive of RecruitMilitary in Loveland, Ohio, which runs career fairs for veterans and helps them find jobs.

After receiving an associate's degree at another online college, Iraq War veteran Scot Reynolds transferred to Kaplan University. Kaplan recruiters led him to believe the university would help his career, he said in a telephone interview.

Reynolds, who earned his bachelor's degree in management in 2009, works as a telemarketer in Coudersport, Pennsylvania. He used his GI Bill benefits for living expenses and funded his Kaplan education with student loans. He owes more than $12,000, he said. He makes $8 an hour plus commission -- less than another company paid him before he graduated.

"My income has drastically dropped," said Reynolds, 27. "Kaplan was extremely limited with help in finding work."

Kaplan University provides a wide array of placement services, including resume building, mock interviews and networking assistance, Iori said. Payscale data are "unreliable" and "not statistically valid," he said.

Melvin's Family

Kaplan recruiters approached Keith Melvin in 2009. His experience, based on interviews with him and his wife, e-mail correspondence between Melvin and Kaplan, and a review of his Education Department and Veterans Affairs records, shows the obstacles some veterans encounter at Kaplan.

Melvin, 32, lives with his wife and four daughters, aged one to 13, in a rented house in Nashport, Ohio. His wife's income as a retail manager and his disability pension support the family.

Melvin's parents were factory workers. From 1996 to 1999, he attended nonprofit Heidelberg University in Tiffin, Ohio, and was on its wrestling team. He left one year short of a degree because he couldn't cobble together enough financial aid.

He joined the Ohio National Guard in 2001 and was deployed from 2005 to 2006 in Baghdad as a mechanic and as a gunner guarding a lieutenant colonel's vehicle. Melvin was promoted to sergeant and awarded a medal for his "outstanding dedication to duty." His commanding officer's recommendation for the citation heralds his "exceptional discipline, soldierly conduct and initiative."

Shoulder Injury

Repairing a Humvee during combat, Melvin injured his left shoulder, which has limited range of motion and sometimes pops out of its socket. He is considered 80 percent disabled by Veterans Affairs.

Coming home, he returned to his old construction job, building compressor stations for natural gas pipelines. He was laid off early in 2009.

"It's hard to work construction with one arm," he said.

He decided to go back to college to become a lawyer. Robinson, the Kaplan admissions adviser, notified him on March 4 that she had received an information form he completed online.

"Because of the immense interest in this program and the limited size of our classes, I will be calling you soon," she wrote.

Overcoming Objections

While Melvin was skeptical of online education at first, Kaplan recruiters swayed him, he said. Managing objections from prospective students "is an integral part of the advisor's job," according to a 2008 Kaplan training manual. "Techniques to Overcome Objections" include "State the objection to the person, then empathize with them."

A 2009 Kaplan manual tells military admissions advisers to "establish yourself as the university official, not a telesales person."

The manual also says, "Limit your objectives. If the agenda sounds very long or complicated, prospective students will be on guard from the beginning."

Under Kaplan's compensation system for admissions advisers, veterans were more valuable than active-duty service members, said Cameron Huff, who was on the military team from November 2006 until his dismissal last April. A veteran counted for seven points, and a service member for five points. A service member's spouse counted the most, 10 points, Huff said.

Tuition Discounts

The number of points assigned each group correlated with the amount of its tuition, Huff said. Kaplan reduces tuition by 10 percent for spouses, 38 percent for veterans, and 55 percent for active-duty military.

Robinson, the admissions adviser, told Melvin that Kaplan was connected through its parent company to such luminaries as Post directors Warren Buffett and Melinda Gates, Melvin said.

"I was more familiar with Jimmy Buffett than I was with Warren Buffett," he said. "I looked into it" and was impressed by Buffett's investment acumen.

Invoking Buffett, chairman of Berkshire Hathaway Inc., and Gates, co-chair of the Bill & Melinda Gates Foundation, is a common Kaplan tactic, Huff said.

"One of the things that I always said was, 'As you may know, Kaplan is owned by the Washington Post, a paper known for having really high ethics,'' he said. "'As you can imagine, the Washington Post would never involve itself in anything that would reflect poorly on its reputation.'"

Gates, Buffett

While it's appropriate to inform students about Kaplan's ownership, mentioning Buffett and Gates isn't sanctioned or encouraged, and rarely happens, Kaplan spokeswoman Mack said.

"Kaplan University in no way supports this," she said.

Gates and Buffett didn't respond to requests for comment.

When Melvin told advisers on the military team that he was also considering the University of Phoenix, owned by Apollo Group Inc., they responded that Phoenix was under federal investigation, he said.

The military team is trained to foster "fear, uncertainty, doubt" in prospects' minds about other online colleges, according to the 2009 manual.

"Statements such as, 'Some schools require group projects where your grade depends on another's participation,' instill FUD regarding the features of competitors' programs," the manual said. Phoenix, which has more veterans enrolled than any other college, emphasizes group work.

Kaplan has dropped the term "FUD" from training manuals "in favor of clearer language that will continue to encourage advisers to cite the distinctive benefits of a Kaplan education without being misinterpreted," Iori said. "Admissions advisers are prohibited from disparaging other institutions."

Phoenix spokesman Manny Rivera declined to comment.

Law School

One competitive advantage cited by Kaplan recruiters was its law school. They told Melvin that, once he finished his bachelor's degree, he could enter Kaplan's online Concord Law School. Admissions advisers are supposed to say that "we lead the way with our online technology and established the first online law school," according to a 2009 script.

Melvin wasn't told that a Concord law degree was of little use in his own state, Ohio, he said. Only graduates of law schools accredited by the American Bar Association can practice in Ohio, said Ohio Supreme Court spokesman Chris Davey. Concord isn't ABA-accredited.

Students aren't usually informed that Concord graduates are permitted to take the bar exam in only one state, California, Huff said.

Undergraduate admissions advisers at Kaplan refer prospective students who express interest about Concord to the law school's staff, Mack said. It isn't their job to provide details about Concord programs, she said.

'Doubtful' Benefits

Robinson told Melvin in an e-mail that it was "doubtful" he would qualify for the GI Bill, which pays for veterans to go to college. Melvin and his wife said Robinson and other Kaplan advisers assured him in telephone conversations that the government would cover his tuition either through federal student aid or veterans' benefits, with money left over for living expenses.

"We were under the impression that his education would be paid for," Terri Melvin, 34, said in a telephone interview.

Many returning soldiers turn to veterans' service organizations for advice on benefits. Kaplan and other for-profit colleges gain credibility by forging relationships with these groups.

Kaplan recently allied with the Washington-based Military Benefit Association, which sells life insurance and other products to almost 100,000 active-duty service members, veterans and federal employees. Members receive a tuition discount to attend Kaplan, Iori said.

Offers Discounts

Amvets, which is based in Lanham, Maryland, and has 180,000 members, counts three for-profit colleges as corporate partners: Phoenix, Kaplan, and DeVry University. The colleges offer scholarships or discounts to Amvets members, who can link to their websites through advertisements on its home page.

Kaplan was the most visible corporate sponsor at the Amvets national convention in Louisville in August. Its representatives addressed hundreds of members of Amvets and their families at three sessions, and pitched veterans visiting its table in the exhibition hall. Veterans "can virtually go to Kaplan with no out-of-pocket expenses," Kay Houghton, Kaplan director of corporate alliances, said as she handed out brochures.

Kaplan paid a $2,500 exhibitor fee, Iori said. It paid the same fee to be an exhibitor in 2009 and to sponsor an awards banquet in March, he said.

Service organizations shouldn't accept financial contributions from for-profit colleges, said Overton, the executive director of Veterans of Modern Warfare.

'Monetary Gain'

"We all know these schools are after the monetary gain of a healthy benefits package, not necessarily what's in the best interest of students," said Overton, a veteran who was blinded in the Gulf War.

Only two students in the past two years have enrolled at Kaplan after linking to the university from the Amvets site, Iori said.

"Kaplan supports Amvets because of the services the organization provides to the veteran community," he said.

Melvin started classes on March 25, 2009, even as it remained unsettled how he would pay. When he applied for federal student aid on March 11, 2009, he was deemed ineligible for Pell grants for low-income students based on his family earnings from the prior year, when he was working. While he could have received student loans, he didn't want to take on debt while unemployed, he said.

Documenting Payment

Most colleges require students to document a method of payment or financial aid award before starting classes, said Justin Draeger, president of the National Association of Student Financial Aid Administrators, based in Washington.

Former Kaplan students often fall behind on their loans, jeopardizing the university's access to federal financial aid, its main funding source, according to Education Department figures.

Twenty-eight percent of former Kaplan University students repay the principal on their loans, below the 35 percent minimum set by proposed federal standards for colleges participating in financial aid programs, according to the Education Department.

The rate of Kaplan University student loans that entered repayment in 2008 and defaulted in two years was 17.2 percent, up from 5.9 percent in 2005, according to the department. Colleges with 25 percent or higher default rates for three consecutive years may lose access to financial aid.

Eligibility Denied

On April 27, 2009, Kaplan notified Veterans Affairs of Melvin's enrollment so that it could begin paying his tuition. Reviewing his case, the department determined that he didn't qualify for benefits.

The GI Bill then in effect only covered active reservists. Melvin had left the Ohio National Guard in 2007. Even when his stint in Iraq was tacked on, as the rules allowed, he fell short. His eligibility expired on Feb. 18, 2009. Under the new GI Bill which took effect Aug. 1, 2009, veterans who served at least 90 days on active duty since Sept 10, 2001, as Melvin did, may be eligible for education benefits.

Many colleges enroll military students before benefits are approved so they can start school sooner, said Kaplan spokeswoman Mack.

"We carefully follow the VA's guidance on what's appropriate and permissible," she said.

The Veterans Affairs department encourages colleges "to allow adequate time for the enrollment, eligibility, and payment processes to work," spokeswoman Katie Roberts said.

Top Grades

Melvin had a 4.0 average in his first semester. When the next semester began June 10, Kaplan told him that he couldn't participate in class until he paid for the prior courses.

Melvin was stunned. The Veterans Affairs department hadn't notified him that it was denying his benefits. He contacted his Kaplan academic adviser for help. By the time she responded, the deadline for dropping second-semester classes had expired, he said.

Kaplan blocked his online access and referred his unpaid bill to Minneapolis-based Pinnacle Financial Group Inc. which called him as often as five days a week. Pinnacle didn't return phone messages for comment.

Dropped from Kaplan's student body, Melvin applied to public Ohio University. He was stymied because Kaplan was withholding his transcript. Ohio University requires transfer applicants to submit transcripts from each college attended.

'Sour Taste'

"I have a very sour taste in my mouth about Kaplan," Melvin said. "They're supposed to be a military-friendly school. They assured me that everything was taken care of with financial aid. They told me that a lot of veterans here end up making money because of all the funding we qualify you for."

About 2.5 percent of veterans are "terminally blocked" from attending class, "as a last resort, only after months of nonpayment and typically because of a lack of response" to Kaplan's efforts to work out a solution, spokeswoman Mack said. In addition, Kaplan often blocks access temporarily "to alert students that they need to get their ducks in a row vis-a-vis payment or paperwork," she said.

Most colleges withhold transcripts until payments are up to date, Mack said.

After being asked by Bloomberg News about Melvin's case, the Department of Veterans Affairs plans to pay his Kaplan bill retroactively through a vocational rehabilitation program for disabled veterans, department officials said. If so, Kaplan would release his transcript, and he could finish his degree at Ohio University's campus in Zanesville, near his home, Melvin said.

"We had a goal that he would go to school and become a lawyer and support the family financially," Terri Melvin said. "It's just going to take that much longer now."

– Editors: Robin D. Schatz, Jeff Tannenbaum