



4T's PRODUCTIONS

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 Business week 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.



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"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 Business week 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."



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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.



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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."



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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."



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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.



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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."



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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."

To contact the reporter on this story:
Daniel Golden in Boston at +1-617-210-4610 or
dlgolden@bloomberg.net.

To contact the editor responsible for this story:
Jonathan Kaufman at +1-617-210-4638 or Jkaufman17@bloomberg.net.