PRIVATE EQUITY’S FAILING GRADE
Private equity investment in for-profit colleges

For more than a decade, private equity firms have helped drive growth in the for-profit college industry in the United States, acquiring and helping to grow chains including the Art Institutes, Argosy University, Walden University, the University of Phoenix, and Ashford University.

In acquiring and investing in for-profit colleges, private equity firms have turned to their regular playbook of buying companies and layering on debt, but in this case, it is the largely the federal government that provides the debt and students, especially low-income students of color, who end up with that debt, often without having received an education that prepares them for a job.

While the for-profit college industry has faltered in recent years, private equity has continued to make investments, notably Apollo Global Management’s acquisition of University of Phoenix owner Apollo Education in early 2017.

As the Trump administration rolls back the greater regulatory scrutiny the for-profit college industry has faced during the last several years, it is private equity that stands to benefit the most, posing continuing dangers to students, taxpayers, and the integrity of the federal financial aid system.

PRIVATE EQUITY FIRMS THAT HAVE INVESTED IN FOR PROFIT COLLEGES INCLUDE:
Apollo Global Management (Apollo Education/ University of Phoenix)
KKR (Laureate Education/ Walden University, EDMC/ Art Institutes and Argosy University)
Goldman Sachs and Providence Equity (EDMC/ Art Institutes and Argosy University)
Warburg Pincus (Bridgepointe Education/ Ashford University)
Willis Stein & Partners, Landmark Partners and Vision Capital (Education Corp of America/ Brightwood College and Virginia College)
JLL Partners (Education Affiliates/ All-Star Career College and Fortis College)
TA Associates (Full Sail University and Vatterott Educational Centers)
Quad Partners (Blue Cliff College)

A more comprehensive list is at the end of this report.
Department of Education funds provide a massive subsidy to PE-owned colleges

Private equity-owned for profit colleges, like other for profit colleges, are heavily dependent on US Department of Education Title IV funds including federal student loans and grants such as the Pell Grant. On average, Department of Education Title IV funds accounted for around 80% of revenue at private equity-owned for profit colleges.¹

For-profit colleges owned by private equity firms drew more than $5 billion in US Department of Education Title IV funds in the academic year ended 2015², and hundreds of millions of dollars more in Post 9/11 GI Bill and US Department of Defense Tuition Assistance funds.

Some PE-owned for profit college chains have been particularly aggressive in utilizing US Department of Education Title IV funds.

To take just one example: Southern Careers Institute, a Texas-based chain of vocational schools, is owned by private equity firm Endeavour Capital³. During the academic year ended June 2015 (SCI fiscal year ended December 2014), Southern Careers Institute violated the US Department of Education’s 90/10 Rule⁴ by deriving more than 98% of its revenue, $32.4 million out of $33.0 million, from federal government (Title IV) sources, the highest of any for profit college.⁵

10 years after they had started school, former students of Southern Careers Institute’s Austin campus earned just $20,500 on average⁶, almost $5,000 less than the average Austin resident with just a high school diploma.⁷ Just 18.9% of Southern Careers Institute-Austin students had paid back any of their federal student loans three years after leaving school, compared to the national average of 46.4%.⁸

Some PE-owned for profit college chains have been particularly aggressive in utilizing US Department of Education Title IV funds.
Deceptive practices

Multiple for-profit colleges owned by private equity firms have reached settlements with state and federal agencies following allegations that they engaged in deceptive practices. A few noteworthy examples include:

**EDUCATION MANAGEMENT CORP. (GOLDMAN SACHS/ PROVIDENCE EQUITY/LEEDS EQUITY AND LATER KKR)**

In November 2015, Education Management Corp (EDMC) entered into a settlement with the US Department of Justice and agreed to pay $95.5 million to settle claims of illegal recruiting, consumer fraud, and other violations.9

EDMC was owned by the private equity arm of Goldman Sachs, Providence Equity Partners, and Leeds Equity Partners until August 201410, when the company’s lenders, led by private equity manager KKR, converted their loans to a 90 percent equity stake in the for-profit college chain.11 The allegations by Department of Justice extended through the periods when Goldman Sachs/Providence/Leeds were major equity owners in EDMC and KKR was a major lender.12

The Justice Department alleged that EDMC ran a high-pressure boiler room where admissions personnel were paid based on the number of students they enrolled.13

“Operating essentially as a recruitment mill, EDMC’s actions were not only a violation of federal law but also a violation of the trust placed in them by their students - including veterans and working parents - all at taxpayer expense,” said Attorney General Loretta Lynch.

**ASHFORD UNIVERSITY/ BRIDGEPOINT EDUCATION (WARBURG PINCUS)**

In May 2014 Ashford University, a subsidiary of Bridgepoint Education, agreed to pay $7.25 million to settle claims that recruiters lied to convince prospective students to enroll in online classes. While Bridgepoint was publicly traded, private equity firm Warburg Pincus owned a majority (61.4%) of the company as of April 2014.14

Iowa Attorney General Tom Miller alleged Ashford and Bridgepoint violated Iowa’s Consumer Fraud Act by withholding critical information, using high-pressure sales tactics, charging huge non-refundable fees and making misleading statements to convince prospective students to enroll in online classes.15
“Our investigation found what we allege was troubling conduct by Ashford recruiters, including misleading prospective students to encourage them to sign on the dotted line,” Miller said. “Unfortunately for many Ashford students, they didn’t get the degree they hoped for or the job they were led to believe they’d get after graduating. What they did end up with was a crushing amount of student loan debt.”

Two years later, in September 2016, the Consumer Financial Protection Bureau (CFPB) ordered Bridgepoint to pay more than $24 million to refund and discharge debt that students accumulated through an in-house loan program that used deceptive marketing to lure borrowers. CFPB officials say the company misrepresented the total cost of the loans by telling prospective borrowers that they could pay them off by sending as little as $25 a month. But the typical payments on the loans were far higher. “Bridgepoint deceived its students into taking out loans that cost more than advertised, and so we are ordering full relief of all loans made by the school,” said CFPB Director Richard Cordray.

EDUCATION AFFILIATES (JLL PARTNERS)

In June 2015, Education Affiliates agreed to pay $13 million to the United States government to resolve allegations that it violated the False Claims Act by submitting false claims to the US Department of Education for federal student aid for students enrolled in its programs.

The government alleged that employees at EA’s All-State Career campus in Baltimore altered admissions test results to admit unqualified students, created false or fraudulent high school diplomas and falsified students’ federal aid applications, and that multiple EA schools referred prospective students to “diploma mills” to obtain invalid online high school diplomas. These allegations also led to criminal convictions of two All State Careers admission representatives, Barry Sugarman and Jesse Moore, and a test proctor, Jacqueline Caldwell.

“The various cases that were settled here include numerous allegations of predatory conduct that victimized students and bilked taxpayers,” said Under Secretary Ted Mitchell of the U.S. Department of Education.

POOR STUDENT OUTCOMES

Like the for-profit college industry more generally, many private equity-owned for profit colleges have failed to provide an adequate education for students despite drawing federal funds and encouraging students to take out tens of thousands of dollars in loans. For example, a 2016 report from the National
Private Equity Stakeholder Project
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Bureau of Economic Research that shows that for-profit students experience a “decline in earnings after attendance, relative to their own earnings in years prior to attendance.” Some specific examples include:

A recent study published in the Journal of Human Resources, “Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data,” noted that students at for profit chains do particularly poorly:

“Here we observe worse performance among the chain for-profits: annual earnings declines are nearly double in magnitude for chains (about -$2,400 vs. -$1,200). Employment outcomes are negative for chains (-2.5 percentage points), but show a positive differential for independent institutions (2.0 percentage points).”

The study went on to note that “for-profit attendance does not pass a benefit-cost test and leaves the average student with a loss of about $1,200 over her lifetime [compared to not attending college at all].

**UNIVERSITY OF PHOENIX (APOLLO GLOBAL MANAGEMENT)**

In early 2017 Apollo Education, the owner of the University of Phoenix for profit college chain, was taken private by Apollo Global Management a (then unrelated) large private equity manager. While University of Phoenix enrollment has fallen sharply from its 2010 peak, the chain still enrolled 171,000 students this year, the Associated Press reported.

Based on federal data, graduation rates at University of Phoenix campuses are dismally low – from 17% at the University of Phoenix campus in San Jose, California to 8.4% in Boston to 7.4% in Arlington, Virginia. These compare to national average graduation rate of 41.9% for all colleges and universities.

Several University of Phoenix programs, including its teacher assistant/aide associates degree, behavioral sciences associates and bachelor’s degree, and health information/medical records technology associates degree programs, failed the US Department of Education’s Gainful Employment standards in 2015, the most recent year available – standards that measure whether graduates earn enough money to pay down their federal student loans.

Students graduating from the University of Phoenix with teacher’s aide/assistant associates degree earned an average of $18,094, significantly below the average earnings of someone with just a high-school diploma ($25,000). This was also the case for University of Phoenix students graduating with a pharmacy tech/assistant associates degree ($20,422), another program that failed federal Gainful Employment standards.
PRIVATE EQUITY’S FAILING GRADE

According to the US Department of Education’s College Scorecard website, the average University of Phoenix student ended up with $32,813 in federal student debt. This does not include private student loans.\textsuperscript{30}

The University of Phoenix has drawn the most complaints to the VA of any college from students receiving Post 9/11 GI Bill funds.\textsuperscript{31} Of these, most students complained about financial issues (e.g., tuition/fee charges – 323 complaints), followed by quality of education (179 complaints).\textsuperscript{32}

**Education Corporation of America (Landmark Partners, Vision Capital)**

For profit college chain Education Corporation of America (ECA) is owned by private equity firms Willis Stein & Partners, Landmark Partners and Vision Capital.\textsuperscript{33} In 2015 Education Corporation of America significantly expanded by acquiring from Kaplan Education, a division of Graham Holdings Co., 38 Kaplan College campuses and incorporating them into its Virginia College and Brightwood College chains.\textsuperscript{34} ECA schools enroll almost 60,000 students.\textsuperscript{35}

In 2015, the majority (19 of 35) of Virginia College's programs failed federal gainful employment standards.\textsuperscript{36} According to Department of Education data, a student at Virginia College’s Greensboro, North Carolina campus, for example, earned an average of $24,400 ten years after starting classes there, less than the average income of a Greensboro resident with just a high school diploma.\textsuperscript{37} Just 36% of students who attend Virginia College’s Greensboro campus earned, on average, more than those with only a high school diploma.\textsuperscript{38}

Five of Brightwood College's programs failed federal gainful employment standards. Another 27 programs were rated “zone” or warning zone, meaning their graduates’ annual loan payments were 20 to 30 percent of discretionary income or 8 to 12 percent of total earnings.\textsuperscript{39} A student at Brightwood College’s Nashville, Tennessee campus earned an average of $24,600 ten years after starting classes there, less than a Nashville resident with just a high school diploma.\textsuperscript{40} Just 38% of students who attend Brightwood College’s Nashville campus earned, on average, more than those with only a high school diploma.\textsuperscript{41}

**Education Affiliates (JLL Partners)**

In addition to settling charges with the US Department of Justice that it violated the False Claims Act, eighteen programs at Education Affiliates’ Fortis Institute brand failed the Department of Education’s Gainful Employment standards as of 2015.\textsuperscript{42}

According the US Department of Education’s College Scorecard tool, a student who attends Fortis’ Indianapolis campus makes just $22,200 ten years after entering school. Just 30% of students who attended the school earned, on average, more than those with only a high school diploma.\textsuperscript{43}
WHO IS TARGETED BY FOR PROFIT COLLEGES?

The impact of the for-profit college sector, including for-profit colleges owned by private equity firms, is not distributed equally. Students from low-income backgrounds and students of color, particularly African-American and Latino students, make up a disproportionate share of for-profit college students.44

A 2014 paper by the Leadership Conference on Civil and Human Rights showed that African-American and Latino students are over-represented in for-profit colleges, making up 41 percent of the student body.45 This over-representation was even more extreme at the for-profit giant Corinthian Colleges: an analysis of Corinthian’s 2014 enrollment numbers shows that people of color comprised the majority (62 percent) of its students, women comprised 71 percent of its students, and African-American women comprised 26 percent.46

A 2014 study by the Center for Responsible Lending showed that over one-quarter (28%) of African-Americans enrolled in a four-year institution attend a for-profit college, compared with just 10% of whites. A 2016 Brookings Institution study reported that for-profit students have the lowest average annual household income, at just $28,530, significantly lower than public two-year (e.g. community college) students ($41,718) and other public and non-profit colleges and universities.47

For-profit colleges also have a higher proportion of female students than public and non-profit colleges and universities.48

In addition, for-profit students are almost twice as likely to have served in the military.49

For-profit colleges also disproportionately enroll low-income students, older students, and single parents.

STUDENT DEBT/ DEFAULTS

In October, the National Center for Education Statistics (NCES) reported that students who attended for-profit colleges were more than twice as likely to default on their loans than students who attended public educational institutions. According to the NCES report, 52% of the students who attended for-profit schools defaulted on their loan within ten years.50

Delta Career Education (Apollo Investment Corp)

Apollo Investment Corp, the business development company (BDC) managed by Apollo Global Management, the owner of the University of Phoenix, has equity and debt investments in for-profit college firm Delta Career Education51, which operates the Miller-Motte College, Miami-Jacobs Career College, McCann School of Business and Technology, and Berks Technical Institute chains.52
According to Department of Education data, the average student at Miller-Motte College’s Augusta, Georgia campus graduated with $25,515 in federal student debt. Ten years after starting classes, the average Miller-Motte Augusta student earned just $23,000 a year. Just 20% of Miller-Motte Augusta students had paid down any of their federal student debt three years after leaving school, compared to a national average of 46% for all colleges and universities.53

Instead, nearly a fifth (19.4%) of the 2014 cohort of Miller-Motte Augusta students had defaulted on their debt within three years of leaving school.54 The national 2014 cohort default rate is 11.5% for all colleges and universities and 15.5% for all for-profit schools.55

**FINANCIAL RESPONSIBILITY**

The US Department of Education requires colleges and universities to submit audited financial statements to demonstrate they are maintaining the standards of financial responsibility necessary to participate in the Title IV programs.56 Several private equity-owned for profit colleges failed the Department of Education’s financial responsibility test during the 2014-2015 academic year. Schools that scored in the “not financially responsible” range include Trident University International (owned by PE firm Summit Partners), Northcentral University (Falcon Investment Partners), Tribeca Flashpoint College (Sterling Partners), Blue Cliff College (Quad Partners), Instituto de Banca y Comercio (ABRY Partners), Vatterott Educational Centers (TA Associates), Fortis College (JLL Partners), Virginia College (Landmark Partners), Miller Motte College (Apollo Investment Corp), and the Art Institutes (KKR).

These and a number of other private equity-owned for profit colleges including Swedish Institute (Quad Partners), National University College (ABRY Partners), All-State Career (JLL Partners), Brightwood College (Landmark Partners), Miami-Jacobs Career College (Apollo Investment Corp), Walden University (KKR) and Argosy University (KKR) have been placed on “heightened cash monitoring” status by the Department of Education, requiring them to operate under more restrictive conditions and extra scrutiny because of concerns about their management or administration of federal financial-aid dollars.58

**PE-OWNED COLLEGES AND ACICS**

In late 2016, the Obama Department of Education stripped the Accrediting Council for Independent Colleges and Schools (ACICS) of Department recognition, due to concerns about the agency’s oversight of for-profits, including Corinthian Colleges and ITT Technical Institute, that had been charged with deceptive practices. “ACICS’s track record does not inspire confidence that it can address all of the problems effectively,” wrote Emma Vadehra, chief of staff to the education secretary. The ACICS was the largest accreditor of for-profit schools.59
A number of private equity-owned colleges were accredited by the ACICS including some of the Art Institutes (KKR), Delta Career Education (Apollo Investment Corp), Virginia College and Brightwood College (Landmark Partners, Willis Stein & Co, Vision Capital), Florida Technical College and Instituto de Banca y Comercio (ABRY Partners), Stautzenberger College and Rockford Career College (Wafra Partners), American Institute (Primus Capital), Tribeca Flashpoint College and Spartan College of Aeronautics and Technology (Sterling Partners).60

These schools are currently operating under a provisional accreditation and have 18 months to find a new accreditor.61

TRUMP ADMINISTRATION COULD BE A BOON FOR PE-OWNED FOR-PROFIT COLLEGES

Since taking office, Trump-appointed Secretary of Education Betsy DeVos, herself the former chair of and current investor in a private equity firm62, has moved swiftly to roll back oversight of and regulations governing for-profit colleges as a number of for-profit college industry figures, including Robert Eitel and Julian Schmoke, have joined the Department of Education.63

For example, DeVos has moved failed to implement and moved to gut the Obama-era Gainful Employment Rule, which requires for-profit schools and programs to help students prepare for "gainful employment in a recognized occupation" to receive federal funding.64 More than one third (35%) of the 804 college programs that failed the Department of Education’s Gainful Employment Rule, were at for-profit colleges owned by private equity.65 DeVos also is moving to erase the Obama Borrower Defense Rule, which established procedures for students harmed by their schools to have their federal loans cancelled. Thus far, 98.6% of all Borrower Defense claims have been filed by for-profit college students.66

The Department of Education under DeVos has also ceased coordination with the Consumer Financial Protection Bureau67, a partnership which had resulted in multiple settlements with for-profit colleges and hundreds of millions of dollars in loan forgiveness, including a $24 million settlement at private equity owned Bridgepointe Education.68 DeVos also may give a sympathetic response to accreditor ACICS, which is now seeking reinstatement.
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Private Equity Stakeholder Project
PRIVATE EQUITY’S FAILING GRADE

Endnotes

1 Proprietary School Revenue Percentages Report for Financial Statements with Fiscal Year Ending Dates Between 07/01/14 – 06/30/15, US Dept of Education.
5 Proprietary School Revenue Percentages Report for Financial Statements with Fiscal Year Ending Dates Between 07/01/14 – 06/30/15, US Dept of Education.
7 Based on estimated earnings of $25,437 in for a high school graduate in Austin, Texas, US Census Bureau American Community Survey 2015.
9 “For-Profit College Company to Pay $95.5 Million to Settle Claims of Illegal Recruiting, Consumer Fraud and Other Violations,” US Department of Justice, Nov 16, 2015.
10 EDMC Form DEF-14A, Apr 18, 2014.
12 “For-Profit College Company to Pay $95.5 Million to Settle Claims of Illegal Recruiting, Consumer Fraud and Other Violations,” US Department of Justice, Nov 16, 2015.
13 “For-Profit College Company to Pay $95.5 Million to Settle Claims of Illegal Recruiting, Consumer Fraud and Other Violations,” US Department of Justice, Nov 16, 2015.
23 “Every University of Phoenix location in Florida is halving on-campus enrollment,” Miami Herald, Sept 28, 2017.
34 Education Corporation of America purchases Kaplan College campuses, Media Release, Feb 12, 2015.
35 What’s Up with ACICS Colleges?” Center for American Progress, Jun 6, 2017.


“For-profit college students twice as likely to default on loans, report says,” PBS News Hour, Oct 5, 2017.


Institutions on HCM1 or HCM2 as of 6-1-2017, US Dept of Education.


What’s Up with ACICS Colleges?” Center for American Progress, Jun 6, 2017


