

Daniel Modesto

POL 101-10

17th May 2023

Professor David Dixon

Final Paper

Abstract

A two-state comparison of for-profit education fraud in New York and Florida. With this question, the format of the essay begins with an overview of the history of for-profit education in the United States since the age of the thirteen colonies. This is followed by the post-economic and education boom after World War two and how for-profit colleges came to leverage higher education compared to public universities. This essay discussed the modern era of for-profit education afterward with how for-profit colleges operate today and examples of how they have negatively impacted their attendees in New York and Florida. To this end, the essay discusses how regulation can benefit students attending for-profit colleges to receive a higher education and prevent further corruption. Data cited in this essay comes from the bibliography page located at the end of the essay.

In the United States, two types of higher education institutions operate nationwide, Universities and for-profit colleges. For-profit college institutions operate under different circumstances as they do not receive money from the federal government to operate and instead rely on student fees and financial backers to receive income. Every for-profit college's primary goal is to make money as a business rather than focus on the excellence of students attending. As for-profit colleges have cemented themselves into the American education system, their influence over students has created a dynamic that has garnered government attention and fatalistic situations.

The beginning of for-profit college institutions dates back to the early days of American colonies where, according to the book *Higher Ed, Inc: The Rise of the for-Profit University*, were built on the premise of entrepreneurial passion that is embedded within America's culture and free-market economy (Ruch, 2003, 52). What gave these institutions more of an advantage compared to traditional universities in this period was teaching occupation jobs that were in demand and not taught in traditional universities, which often led to good-paying jobs at the price of a fee (Ruch, 2003, 53). As individuals wanted to increase their economic status in the colonies, these institutions cemented themselves in the hands of individual entrepreneurs as the key to success within American society. Centuries later, these institutions still existed, now being dubbed "for-profit" colleges under the same premise of offering an education for in-demand jobs. While their existence was smaller, their power over students became far greater thanks to the aftermath of the second world war.

In the aftermath of the second world war, the United States decided to invest heavily in the futures of the young soldiers who served and wanted to pursue higher education. The result was the creation of the Servicemen's Readjustment Act of 1944, whose goal, according to the

official National Archive, was to: "provided World War II veterans with funds for college education, unemployment insurance, and housing" ("Servicemen's Readjustment Act (1944)"). Within the next few years, over eight million veterans received educational benefits while two million three hundred thousand attended colleges and universities nationwide ("Servicemen's Readjustment Act (1944)"). While the act played a huge role in the democratization of higher education, it also played a huge role in the expansion of for-profit institutions nationwide. According to author A.J Angulo, five years after the signing of the Servicemen's Readjustment Act, the number of for-profit colleges increased by three hundred percent, nearly totaling 5,623 colleges by the end of 1949 (Angulo, 2016, 64). This expansion raised questions by citizens and lawmakers about the legitimacy and legality of for-profit colleges, given the pattern of fraud, abuse, and fly-by-night operations heard from those attending these institutions nationwide (Angulo, 2016, 64).

After nationwide state investigations into for-profit practices, congress began to take an interest in the issue in 1950 with its annual Veterans Affairs report led by chief administrator Carl R. Gray Jr. In Gray's report, he noted that there had been over 5,600 for-profit colleges established, with many charging excessive fees for the education of "questionable character" that he concluded was meant to prey on veterans receiving benefits for a "quick and large return on capital investment" (Angulo, 2016, 70). From 1950 to 1965, for-profit colleges began to be monitored and regulated nationwide to prevent for-profit institutions from profiting off students until the introduction of the Higher Education Act of 1965. The Higher Education Act's purpose was: "to strengthen the educational resources of our colleges and universities and to provide financial assistance to students in postsecondary and higher education" (*Higher Education Act of 1965*). Within the act came Title IV, which increased higher education access by offering

financial aid to students of middle and lower-class incomes (McGuire, 2012, 2). Initially, Title IV prohibited students from using financial aid in for-profit colleges, but after the act was amended in 1972, the ban was lifted and effectively allowed for-profit colleges to capitalize on not just student financial aid but also on student appeal as employers demanded more trained white-collar workers that for-profits could advertise as something they offer (McGuire, 2012, 2).

As the period of the need for higher education became the norm in the United States, there began to be a cultural shift in how Americans perceived getting a higher education. In the 21st century, higher education is now more common among the working class than in previous generations, as stated by Micheal T. Nietzel of Forbes: "The percentage of adults in the U. S. between the ages of 25 to 64 with college degrees, certificates, or industry-recognized certifications, has increased from 37.9 percent in 2009 to 53.7 percent in 2021, a gain of nearly 16 percentage points" (Nietzel, 2023, 1). As more people earn college degrees, the value of a degree has decreased in American society, given the ever-changing economic landscape and competitiveness of the job market across the world. According to Mike E. O'neal of the American Bankruptcy Institute Law Review, the societal shift is represented in everyday American life by stating the following: "Indeed, some families are even questioning the value of college. There is a wholesale abandonment of long-held cultural, political, economic, and moral values. In this context, what passes for a college education is being redefined and much of what passes for higher education brings to mind former Boston University President John Silber's famous quote: "Higher than what?" (O'Neal, 2015, 5). What passes as higher education today is how for-profit colleges operate today and why people continue to attend these institutions.

As for-profit colleges advertise to potential students, they illustrate what the perfect college education looks like today at face value to lure students while operating under different

circumstances. Today's for-profit colleges still rely on fees to operate but have created a structure similar to a corporate model for operating and retaining a huge profit margin from undergraduates attending. In the previous text, *Higher Ed, Inc: The Rise of the for-Profit University*, the author discusses how for-profit colleges make money by understanding their students or "customers" and their needs. According to the text: "They do this through a combination of market research, typically conducted by the corporate headquarters offices, industry advisory boards and student focus groups at the local campuses, and customer-relations training for staff employees who deal directly with students" (Ruch, 2003, 76). In addressing students as customers, most of what this corporate model focuses on are the needs of students attending a for-profit college. In the journal article "*For-Profit Colleges*" the authors state that budget constraints at public colleges often limit what students can study, which bars them from what they wish to learn (Deming et al, 2013, 2). The article continues: "Second, for-profits appear to be at their best with well-defined programs of short duration that prepare students for a specific occupation" (Deming et al. 2013, 1). Being able to complete a program of your interest in a short time makes for-profit education appealing to those who want to learn a trade to get into the workforce much faster than a traditional four-year public college. At face value, for-profit institutions appear to galvanize as the newest iteration of higher education while the ever-increasing reality of fraud reported in these institutions only rises nationwide.

In 2013 the New York Attorney General filed a civil suit against former President Donald Trump and those involved in the malpractice and illegitimacy of Trump University. Trump University, which opened in New York City in 2005, was, according to John Cassidy, writer for the New York Times, an illegitimate institution: "engaged in a methodical, Systematic Series of misrepresentations" designed to convince students to sign up for a three-day seminar, where they

would learn Trump's personal techniques and strategies for investing, at a cost of about fifteen hundred dollars" (Cassidy, 2016, 2). By swaying the general public into believing they received the best information from an already successful businessman, paying off the fifteen-hundred-dollar fee represented the knowledge and power people would receive at Trump University. Diving deeper into the Trump University playbook, Cassidy reveals information that only further proves money is a top priority for the institution by stating the following: "Some of these methods, such as encouraging customers to max out their credit cards and playing psychological tricks on them, are familiar from the world of time-shares and other dodgy industries. "If they can afford the gold elite, don't allow them to think about doing anything besides the gold elite," one of the playbooks advised the sales staff" (Cassidy, 2016, 3). In 2018 the civil suit ended with a settlement of 25 million dollars, to which 21 million would go to the victims of the university and 4 million towards the New York Attorney General's office where the suit was first filed (Katersky and Nestel, 2018, 1).

Trump University ceased its operations in 2010, and while its fraudulent practices have seen justice, the same cannot be said for numerous other institutions in the following years. In Florida, the Florida Metropolitan University actively participated in predatory practices by forcing recruiters to lure potential students by "selling the dream" to those wishing for a better life with the education they provide without disclosing the university's low graduate and postgraduate hiring rates (Yeoman, 2011, 4). Given that the school is listed as an accredited institution, its credits could not be transferred to public colleges leaving individuals in huge sums of debt, and no path forward as one former student describes: "We're stuck with \$40,000 in debt for the next twenty-five years of our life—for nothing," says Sherri Akers, thirty-three, who took medical-assisting courses at the Melbourne campus" (Yeoman, 2011, 4). With how expensive

for-profit institutions charge tuition, many individuals like Akers are forced to live with debt that attains little advancement in their career paths. After a series of lawsuits filed by former students, the university decided to be absorbed and rebranded to Everest College, a nationwide system of for-profit colleges. Everest Colleges has had its own history of predatory practices, as described in the journal article "*Education with a Debt Sentence: For-Profit Colleges as American Dream Crushers and Factories of Debt*". The journal article cites an investigation in which three women who were completing a nursing program at Everest College were given coursework that did not match any nursing practice, such as visits to the Museum of Scientology to study "psychiatrists" or visits to a daycare facility for their "pediatric rotation" (Appel and Taylor, 2015, 2). Ultimately, these women were left with significant amounts of debt for "questionable" education, leaving them unemployed because they did not receive the proper education for their careers.

With all of this information comes the question of what has been done to counteract the abuse and negligence for-profit colleges have openly done with the number of lawsuits and attention they have received nationwide. The first of many regulations came in 2010 when then-President Obama proposed the "Gainful Employment Regulations (GE)" act which, according to Joselyn Hawkins Fountain, Public Policy and Data Analyst, would require: "nearly all education programs at for-profit institutions and non-degree and certificate programs at public and nonprofit institutions are required to publicly disclose information about program graduates and to ensure the debt-to-earnings ratio of program graduates is within the limits set by the regulations" (Fountain, 2019, 1). If any for-profit college did not meet the required regulations, they are stripped of their ability to accept federal financial aid from students in the next school year. The liability is now being put onto for-profit colleges as financial aid is the most crucial form of funding for these institutions in years prior. The debt-to-earnings ratio is a massive rule

for determining if an institution should receive financial aid, as explained by Fountain: "In order for a GE program to remain eligible for federal financial aid, the debt to earnings ratio of the program graduates has to be less than or equal to 8 percent when calculated on total earnings, or less than or equal to 20 percent when calculated on discretionary earnings. Programs with debt-to-earnings ratios that exceed these rates for consecutive years risk becoming ineligible for financial aid" (Fountain, 2019, 3). In the same article, Fountain goes on to explain that under current regulation, for-profit colleges are allowed to receive 90% of the revenue from financial aid, which in turn has led to a massive influx in how much money these institutions take in as between the 2013-2014 academic year for-profit colleges took in a whopping 23 billion in financial aid (Fountain, 2019, 3). If most of these institutions have a bad debt-to-earnings ratio, should they be allowed to take in financial aid if their programs don't work for students?

When conducting data analysis of GE, Fountain states that while enrollment increased, the increase in for-profit institutions stopped. In her own words, she states: "However, the increase was significantly lower than the average increase in enrollment of around 1100 students at public and nonprofit institutions, suggesting that GE may have slowed the rapid growth of for-profit institutions" (Fountain, 2019, 12). This led to an increase of around 1300 students at public or nonprofit colleges compared to only 700 enrollment gains at for-profit institutions nationwide (Fountain, 2019, 12). Another trend Fountain discovered in her research was that of low-income students with Pell grants: "My results suggest large significant declines in enrollment of Pell grant recipients at for-profit institutions, which could suggest that for-profit institutions have implemented more selective recruitment strategies to avoid enrolling low-income students that participate in Title IV programs" (Fountain, 2019, 13). When looking at these findings, for-profit institutions have become far more careful under GE in how they operate compared to

the past. This suggests that regulation is effective at preventing for-profit colleges from taking advantage of students getting an education.

Looking through the information and data from experts, it is clear that for-profit institutions are not a viable option for Americans wanting to obtain an education or training in minimal time. The negatives of how for-profit colleges operate put too much pressure on a single person based on expensive tuition fees and determining whether the education experience at these institutions is even viable to transfer over to a real job. Until recently, there has been regulation and government observation of for-profit colleges, but the damage done to thousands of students in years prior is still well in effect as some still owe thousands in tuition fees which may not be affordable for the average American. The only solution to fix this problem is for for-profit colleges to either fix their way of operating to serve their students better or be forced to close if there are far more negative outcomes for students than positive ones. As time progresses and regulation is enacted, public opinion and government intervention will determine the future of for-profit colleges in years to come.

Bibliography

“Servicemen’s Readjustment Act (1944).” *National Archives*, 3 May 2022.

Angulo, A. J. *Diploma Mills: How For-Profit Colleges Stuffed Students, Taxpayers, and the American Dream*. JHU, Baltimore, Press, 2016.

Appel, Hannah, and Astra Taylor. "Education with a debt sentence: For-profit colleges as American dream crushers and factories of debt." *New Labor Forum*. Vol. 24. No. 1. Sage CA: Los Angeles, CA: SAGE Publications, 2015.

Cassidy, John. “Trump University: It’s Worse Than You Think.” *The New York Times*, 2 June 2016.

Deming, David J., et al. “For-Profit Colleges.” *The Future of Children*, vol. 23, no. 1, Princeton School of Public and International Affairs, Jan. 2013, pp. 137–63.

Fountain, Joselynn Hawkins. "The effect of the gainful employment regulatory uncertainty on student enrollment at for-profit institutions of higher education." *Research in Higher Education* 60.8 (2019): 1065-1089.

Hess, Frederick M., and Michael B. Horn. *Private Enterprise and Public Education*. Teachers College Press, New York, 2013.

Higher Education Act of 1965. www.uwyo.edu/stateauth/higher-ed-act.

Katersky, Aaron, and M. L. Nestel. “Judge Finalizes \$25 Million Settlement for ‘victims of Donald Trump’s Fraudulent University.’” *ABC News*, 10 Apr. 2018.

McGuire, Matthew. “Subprime Education: For-Profit Colleges and the Problem With Title IV Federal Student Aid.” *Duke Law Journal*, vol. 62, no. 1, Duke University School of Law, Oct. 2012, pp. 119–60.

Nietzel, Michael T. "Percentage of U.S. Adults With College Degree or Postsecondary Credential Reaches New High, According to Lumina Report." *Forbes*, 1 Feb. 2023.

O'Neal, Mike E. "Is Higher Education Learning Anything-The Dangers to US Institutions of Higher Education from the Disruptive Challenges of the Twenty-First Century." *Am. Bankr. Inst. L. Rev.* 23 (2015)

Ruch, Richard S. *Higher Ed, Inc.: The Rise of the For-Profit University*. JHU Press, 2003.

Yeoman, Barry. "The high price of for-profit colleges." *Academe* 97.3 (2011): 32-37.