Boom. Regulate. Cleanse. Repeat: For-Profit Colleges' Slow But Inevitable Drive Toward Acceptability

By Paul Fain and Doug Lederman

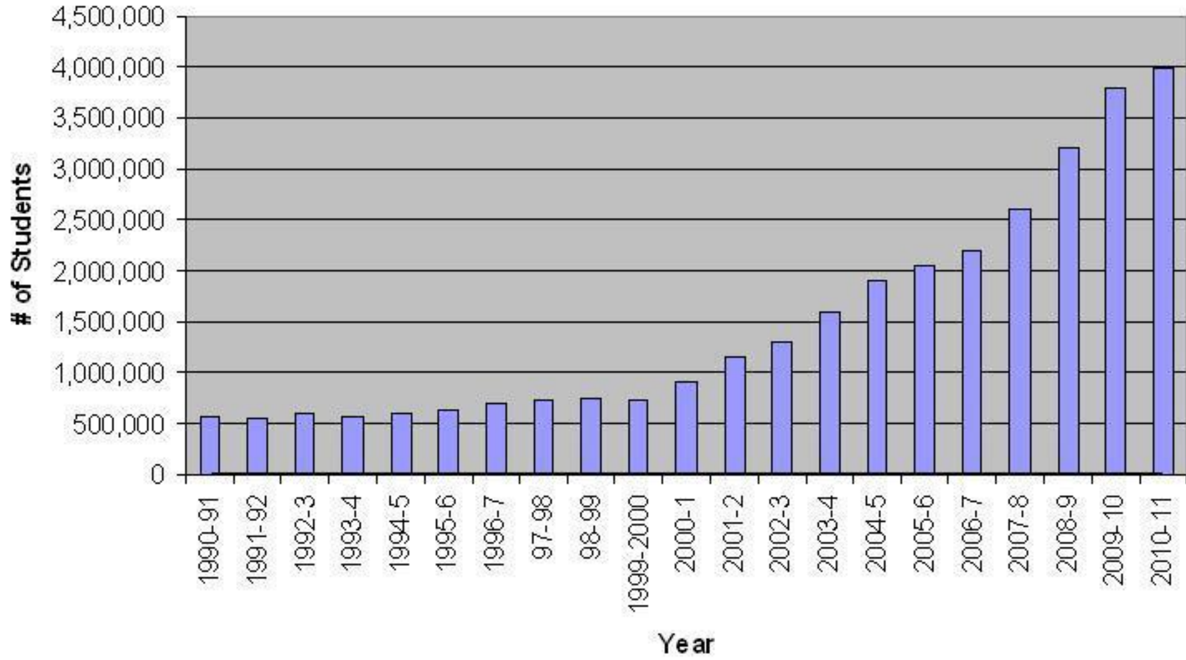
For-profit colleges are not new. Small business and secretarial colleges date to the 1800s, and in some ways resemble today's neighborhood cosmetology schools. But national, degree-granting for-profit chains with scores of office-park campuses and huge online enrollments are a comparatively recent, and controversial, addition to the academy.

The modern for-profit and their mom-and-pop relatives differ from traditional higher education in one crucial way: they pay taxes and return profits to their owners. Most of the major chains are publicly traded and have access to Wall Street capital. Others, particularly regional for-profits, are privately held, with venture capital and equity firms having a big stake in both varieties.

This new breed of for-profit emerged in earnest during the last 40 years, and the growth has been particularly dramatic in the most recent decade, largely due to the increasing feasibility of online education, a huge influx of federal aid, and deregulation during the George W. Bush administration. As recently as 2000, the number of students enrolled in degree-granting for-profit colleges and universities was 450,000, less than 3 percent of the total domestic enrollment. Today those figures stand at nearly 2.4 million and roughly 10 percent, respectively -- with one in every four students pouring into higher education over that decade enrolling at a for-profit institution. Between 2007 and 2010, one of every three new college students enrolled at a for-profit. (As seen in the charts below, the for-profit share is even greater when one looks at all students enrolled in institutions eligible to award federal financial aid, with for-profit colleges enrolling a full 13.5 percent of all postsecondary students.)

That explosive growth -- as well as concerns about how it has been achieved and the quality and value of the education that students in the sector receive -- have combined to put a bull's eye on the back of the enterprise known (in the typically oversimplified fashion that characterizes much of our discourse) as for-profit higher education. Where supporters of the sector argue that the growth has been driven by market demand, institutional flexibility, curricular innovation and a laserlike focus on students' needs, critics attribute it to hyper-intensive marketing, an if-you're-breathing approach to recruitment and admissions and a steadily growing supply of federal financial aid dollars, often due to laissez-faire federal regulation. All of the above have at times been true, to varying degrees.

The result has been a bumpy ride for the sector, marked by a recurring cycle of growth and retrenchment. For-profits tend to rapidly increase their share of the higher education market and then recede when the feds tighten the rules. This ebb and flow has had a partisan flavor, with the industry benefiting when Republicans hold the reins and then warding off crackdowns led by Democrats. That arc has been developed through several cycles (and likely more to come) in which booming growth in enrollments and revenue are followed by intensified regulation that weeds out some of the weaker players but leaves those remaining, and the enterprise as a whole, ultimately stronger and edging closer in form and quality to the rest of higher education.


For-Profit Enrollment, All Title IV-Eligible Colleges, 1990-1 to 2010-11
# of Students
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
1990-91
1991-92
1992-3
1993-4
1994-5
1995-6
1996-7
97-98
98-99
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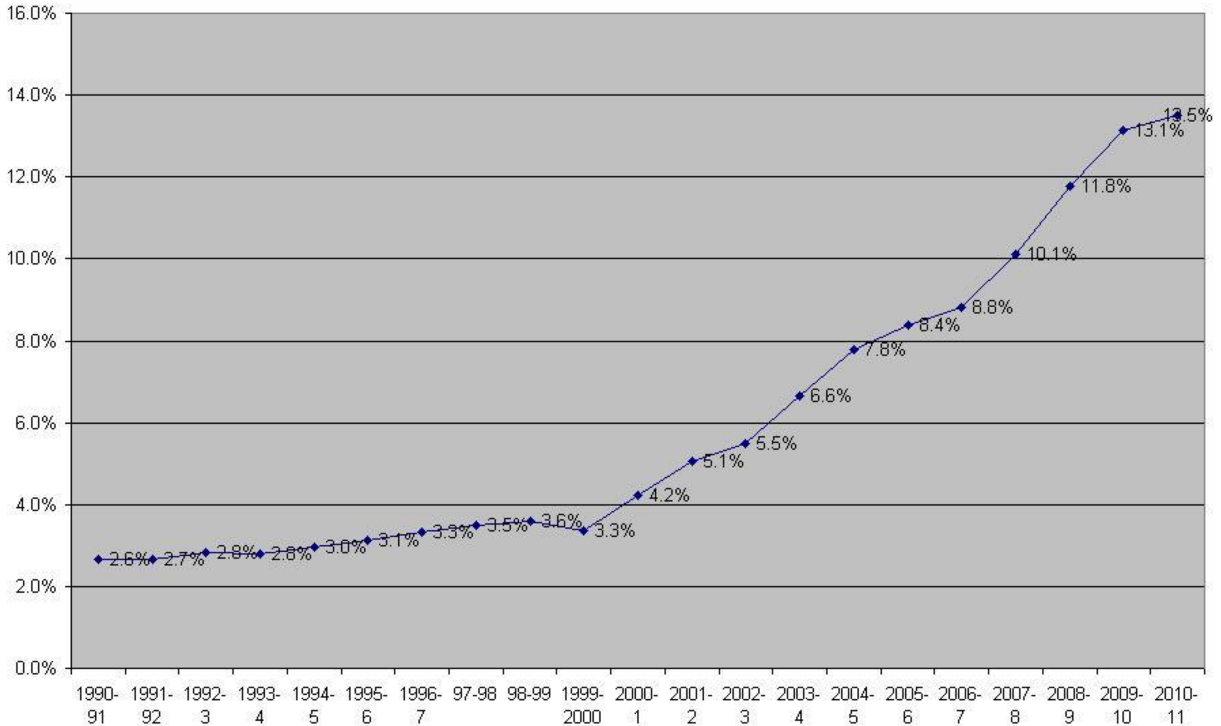
2008-9
2009-10
2010-11
Year


For-Profit Students as Proportion of All Enrollees in Title IV-Eligible Colleges
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
2.6%
2.7%
2.8%
2.8%
3.0%
3.1%
3.3%
3.5%
3.6%
3.3%
4.2%
5.1%
5.5%
6.6%
7.8%
8.4%
8.8%
10.1%
11.8%
13.1%
13.5%
1990-91
1991-92
1992-3
1993-4
1994-5
1995-6
1996-7
97-98
98-99
1999-2000
2000-1
2001-2
2002-3
2003-4
2004-5
2005-6
2006-7
2007-8
2008-9
2009-10
2010-11

Not Your Father's For-Profit Sector

The looks on the faces of the lobbyists for the major associations of colleges said it all on a July 2005 day in a Congressional hearing office building. The House of Representatives higher education subcommittee had just approved legislation to renew the Higher Education Act, and while the representatives of public and private nonprofit colleges looked stricken, the lobbyists for for-profit colleges beamed. “It was a good day for us,” said one. “We got almost everything we wanted.”

The legislation approved that afternoon included provisions that would have softened the rule that requires for-profit colleges to derive at least 10 percent of their revenues from sources other than federal student aid, and another that created a “single definition” of a postsecondary institution in federal law, ending a segregated approach that treated for-profit and nonprofit colleges differently. Some of the changes approved that day did not survive the negotiations that unfolded over the three additional, excruciating years it took to renew the Higher Education Act in 2008. But as a symbol of the political clout that for-profit colleges had accumulated since the sector took shape, through a mix of success, persuasion and campaign contributions, that July day arguably represented a high-water mark.

The story of for-profit higher education is a financial story, a political/public policy story and – oh, yes – an education story. Which of those prisms dominates the tale varies at different times of the sector’s development, and of course varies based on who is doing the telling. None can be ignored, but if one dominates heavily over the years, the picture probably isn’t fair or complete. The policies adopted by federal, state and other regulators have irrevocably shaped -- sometimes positively and sometimes negatively -- the institutions’ ability to educate their growing legions of students. And the colleges’ success in persuading Wall Street and other investors (as well as employers who finance their workers’ education) that private-sector colleges can better educate adults and others long ill-served by traditional higher education has undoubtedly driven their growth. But in the long term, the success and viability of for-profit colleges – like their nonprofit peers – will ultimately be judged by how well they train and develop their students and the value they provide. That is the realm, though, that we have been (and to some extent continue to be) least able to judge.

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Talking about “for-profit higher education” as a coherent entity is almost as misleading as assuming that all “private nonprofit colleges” or all “public colleges” are the same. The publicly traded Apollo Group, with its 400,000-student University of Phoenix, and the 700-student Refrigeration School, Inc., on the outskirts of Phoenix, arguably have less in common than do UC-Berkeley and Laredo Community College, or Stanford University and West Virginia Wesleyan College. For-profit higher education has been around, in one form or another, for well more than a century, but over the last 40 years it has developed into a diverse, complex sector

with the same sorts of shadings that mark the parts of higher education with which Americans are more familiar.

Institutions like Bryant and Stratton College and Strayer's Business College cropped up in local communities to fill specific niches closely tied to economic needs, often in the form of business or secretarial schools. Federal funds first flowed to students at the institutions in the original G.I. Bill, and the number of for-profit institutions grew sharply over the next decade, as did concomitant concerns about their performance. But the story of today's recognizable for-profit higher ed sector is more clearly traced to the early 1970s, when for-profit colleges first became eligible to award federal student grants and loans. (For context, in 1970 there were 18,000 students enrolled in degree-granting for-profit colleges.)

The 1970s and 1980s saw the beginning of the boom/regulate/cleanse/repeat patterns that have taken hold since then. Significantly more enrollment and institutional growth occurred in for-profit colleges during those decades than elsewhere in higher education. Enrollment in the institutions roughly doubled every five years (on an admittedly small base), while it rose sharply (but proportionally far less) in public and private nonprofit institutions, to the point that by the late 1980s roughly 2.6 percent of all postsecondary students were enrolled at for-profits.

That initial big boom started the first of several major cycles of perceived abuses and very real crackdowns that for-profit higher education has experienced in recent years. Reports that a slew of fly-by-night schools had cropped up to try to tap into the federal student aid that attached to many low-income and minority students drove a high-profile investigation in 1991 by a U.S. Senate committee led by Georgia Democrat Sam Nunn. A series of hearings featured one trade school official in leg irons and others citing their Fifth Amendment right not to self-incriminate, and produced evidence of students' heavy loan debt and disproportionately high default rates.

As enrollments at for-profit colleges began climbing much faster than those at other types of institutions, the questions of who was enrolling – and why – became more central. Throughout their existence, the institutions had been portrayed – and portrayed themselves – as focused on adult, working students whose schedules and life situations did not permit them to further their educations at traditional colleges with traditional curriculums offered in traditional formats. In many cases employers paid their tuitions. Night classes and the ready availability of parking spaces were key elements of the draw.

But over time, as the availability of federal student aid grew and the institutions became eligible to compete for more pots of it, they increasingly set their sights not just on the working adults who had historically been their targets, but on other population segments that have historically been underserved by higher education – notably students from low-income families and underrepresented minority groups.

Since around this time, for-profit-college leaders have been able to point to data showing that they provide access to such students at greater rates than most other colleges. But whether the institutions serve those students or prey on them has been a perpetual argument. Are low-income students flocking to for-profit colleges because they've washed out of community

colleges where they received little nurturing and guidance, or because they are bombarded with advertising from institutions that spend as much as a third of their budgets on marketing? Does the fact that minority and low-income students enroll at for-profit institutions at increasing rates mean that they are making sound decisions based on how they can expect to fare, or are they being taken advantage of in a marketplace in which data on outcomes and value (for all types of higher education institutions, not just for-profits) are imperfect, to be kind? Iterations of that argument intensified in this era and have not abated.

The findings of Nunn's investigation led Congress, in renewing the Higher Education Act in 1992, to impose new requirements on for-profit institutions, including a demand that they derive no more than 85 percent of their revenues from federal student aid, a prohibition on incentive-based compensation for student recruiters, and a new mechanism of severe penalties for colleges where significant proportions of student loan borrowers defaulted on their loans. Another provision, which reflected skepticism about new providers of higher education regardless of their tax status, prohibited institutions from awarding federal financial aid if more than half of their programs or students were online.

Nunn's investigation and the new rules produced some of the cleansing that policy makers hoped for, driving hundreds of low-quality providers out of the federal student aid programs or out of business entirely. Leaders of for-profit colleges complained that the rules also drowned many legitimate institutions, but it was inarguable that the changes pruned the industry in ways that left it stronger. Those who might have hoped to snuff out for-profit higher education entirely – and surely some wanted that – did not get their wish. Several of the largest for-profit companies, including Apollo Group's University of Phoenix and DeVry, used newfound investment capital from going public to increase their degreed offerings for working adults, and expanding their reach in some cases (like with Apollo's short-lived Axia College) to traditional-aged students in general education programs. Significant consolidation also occurred, with a group of massive holding companies like Career Education Corp., Corinthian Colleges, Inc., and Education Management Corp. buying up smaller chains and joining early pioneers Apollo and DeVry in creating companies on the publicly traded stock market.

Numbers help tell the story. After a few flat years in the wake of the new federal rules, for-profit enrollments began booming once again in the mid-1990s, rising from 576,000 in 1993-4 (when they made up 2.8 percent of all students enrolled in Title IV-eligible institutions) to nearly 1.6 million (and 6.6 percent) in 2003-4.

The growth did not stop there, with tacit encouragement from business-friendly lawmakers and, beginning in 2000, a Bush Administration that the for-profit industry lobbied (and infiltrated) heavily. Between 1998 and 2002, several of the restrictions imposed in 1992 were rolled back, with the maximum proportion of revenues that an institution could derive from the government rising to 90 from 85 percent, and the ban on incentive compensation being significantly watered down.

In 2006, the so-called 50 percent rule – the requirement that no more than 50 percent of an institution's students or programs could be online – fell by the wayside, and in 2008, the 90/10 rule was further liberalized.

Another set of changes that fueled the industry's growth occurred in another regulatory sphere, the world of higher education accreditation. To qualify for federal student aid, all institutions must be accredited by an agency recognized by the U.S. Education Department, and for-profit colleges are no exception. For most of their history, though, the institutions were accredited by a set of agencies focused specifically on career-related training, rather than by the regional agencies that accredited most public and private nonprofit colleges.

A handful of major for-profit institutions, including the University of Phoenix, were granted accreditation by regional agencies as early as the late 1970s, but most chose not to seek it or were discouraged from doing so. In the mid-2000s, though, several for-profit colleges bought failing nonprofit campuses with the goal of turning them into launching pads for massive online programs. The most visible of those was Bridgepoint Education's 2005 purchase of Franciscan University of the Prairies, in Iowa (more on that to come later), but the practice was widely seen as an attempt by some for-profit providers to "buy" regional accreditation. (Some recruiters at for-profit colleges with regional accreditation have been known to boast that they offer students the "same accreditation as Harvard," a technically true statement.)

For-profits' business model also helped their competitive advantage during this recent period of growth, because the sector is set up to squeeze plenty of productivity out of its labor force. Tuition hikes have outpaced inflation for decades, and higher education has faced increasing pressure to control costs. That's not easy to do at traditional colleges, which typically have tenured professors and strong unions. For-profits lack both. So while nonprofit colleges have gradually converted their faculty mix to feature more lower-paid adjunct professors, amid plenty of controversy, for-profits have continued to hum along with cheap labor costs.

On a related note, for-profits have used economies of scale in curricular design to boost efficiency. Standardization is the name of the game at most major for-profits, where a course is devised centrally and then taught with relative uniformity by armies of adjuncts. While this mass-production style of course design has often been criticized for not standing up to the traditional ideal of giving control to professors and allowing them to play up to their strengths in teaching, it is cheap, replicable and works well online.

These days more nonprofit colleges are lifting ideas from this playbook. Take Western Governors University, a fairly new entrant, where students work at their own speed on prepackaged, online material. Faculty members are essentially tutors at Western Governors, and the coursework tests students' mastery of "competencies" rather than issuing them subjective grades. This model, dubbed competency-based education, is en vogue among policymakers of both stripes, with Arne Duncan, the secretary of education for the Obama administration, saying he wants the approach to be the "norm" in higher education. Ironically, given the Obama administration's antagonistic relationship with for-profits, competency-based education owes much of its creation to ground broken by the sector.

The Obama Years

The summer of 2012 was a major turning point in the debate over for-profits, with the long-awaited arrival of two centerpieces of the latest round of federal crackdowns. First, in June, Sen. Tom Harkin released the damning results of his two-year investigation of the industry. A few weeks later the U.S. Department of Education disclosed the first findings from "gainful employment" regulations, which are the crown jewel of a broad, controversial tightening of the rules on for-profits.

While both releases were highly publicized hits for the industry, neither was a home run. And a ruling by a regional accreditor, also released in the summer, may have more influence in future regulatory battles.

The report from Harkin, who is chairman of the Senate Committee on Health, Education, Labor and Pensions, failed to get a single co-signer, even among fellow Democrats who have joined him in criticizing for-profits. And the sector fared better than expected in their performance in the debut batch of gainful employment data, although the standards for failure under those rules are hardly stringent. And even those who fell below that line got a reprieve, when, just a week later, a federal judge struck down gainful employment.

Perhaps more important than the substance of the twin rollouts is what they signaled about the next stage for-profit regulation. Critics of the sector will continue to push reforms. But both gainful employment and Harkin's report suggest that the elimination of for-profits is no longer on the table, if it ever was. After hitting a peak of more than 3.2 million students in 2009 (4 million if you include non-degree-seeking students), the industry now accounts for more than 10 percent of higher education's total enrollment. It may indeed be too big to fail, at least the bulk of it. And attacks on the profit motive and business model no longer seem as resonant, particularly now that politicians and the general public are asking tough questions about the price and value of degrees from traditional colleges.

If there is a definitive case against for-profits, it is probably the Harkin report, which condemns the industry for putting profits ahead of students. The four-part broadside includes thousands of pages of critical findings about the industry, based on six Congressional hearings, three previous reports and voluminous document requests. It also goes in-depth with individual sections on 30 companies. Among its most damaging findings were high dropout rates among the examined for-profits, including a 64 percent overall withdrawal rate in associate degree programs. And the report links dropout rates to the relatively skimpy spending by for-profits on students.

For example, in 2009 the companies spent $4.1 billion, or 22.4 percent, of all revenue on marketing, advertising, recruiting and admissions staffing, according to the report. They also spent $3.6 billion, or 19.4 percent, of revenue on profit distributions. In contrast, the group of for-profits spent $3.2 billion (or 17.7 percent) on instruction.

Any accumulation of data as sweeping as Harkin's is inevitably going to gain attention in a landscape in which information – truly good and useful information – about the performance of colleges and their students is so hard to come by. Higher education as an industry is notoriously data poor – or, more accurately, lacking in data that help educators and policy makers really assess what's happening in classrooms and to graduates in the work place. While the research effort aimed at capturing and analyzing educational outcomes is gaining steam, it may be some time before we can begin to answer questions about the job for-profit colleges do educating and training their students, among the many other vexing questions in higher education.

The Harkin report is dubbed "For Profit: The Failure to Safeguard the Federal Investment and Ensure Student Success." That title could also be shorthand for the underlying goals of the Obama administration's pursuit of the sector. The most ambitious of the Education Department's pursuit of for-profits under Obama are the gainful employment regulations, which were introduced after a bruising and politicized battle. The department also tightened other "program integrity" rules for institutions that are eligible to participate in federal aid programs under Title IV of the Higher Education Act. Those new rules include a definition of the credit hour and a requirement that online colleges are authorized to operate in each state where they enroll students. The department acknowledged that gainful employment and program integrity regulations were aimed primarily at for-profits. But gainful employment was the most hotly contested of the bunch, by far.

Under gainful employment, which was enacted in 2011, colleges must report the loan repayment rates and debt loads of graduates of vocational programs. When the first round of data was released, about 5 percent of academic programs at for-profits failed all three of the minimum benchmarks established by the regulations. Those benchmarks include a 35-percent debt repayment rate and two tests based on debt-to-income ratios. The first round of findings was only informational, as final data was not due until 2013. Serious penalties, like colleges having their federal aid eligibility nixed, would not kick in until 2015.

Gainful employment's future got a little cloudier a week later, when Rudolph Contreras, a judge with the U.S. District Court in D.C., struck them down. The loan repayment standard under the rules was arbitrary, Contreras wrote, because the department had not used expert studies or industry standards to determine it. As a result, the standard "was not based upon any facts at all," he said. That finding took down the entire set of regulations, because the judge found that the three standards were intertwined. The ruling also suspended the reporting process, meaning that companies do not need to give the feds data on gainful employment, for now.

For-profits and their advocates celebrated the victory. But gainful employment isn't dead. The judge ruled that the department was well within its rights in trying to address a "serious policy problem" of underperforming vocational problems. As such, the department likely will try to bring the rules back with an appeal or a tweak to satisfy the court. But that effort would probably only come during a second term for Obama. Under a Mitt Romney administration, gainful employment would like stay dormant.

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The chief architect of Obama's tougher stance on for-profits was Robert Shireman. After founding the California-based Institute for College Access and Success (TICAS), Shireman helped shepherd gainful employment as an undersecretary at the Education Department. He was canny and aggressive at the department, and succeeded in moving policy farther than many had predicted. So it is a sign of the times that even Shireman and Harkin now have some nice things to say about for-profits, albeit in nuanced statements. Both acknowledge that the industry is not monolithic, and that there are big differences between "bad actors" and some of the better-performing for-profits.

For example, Shireman has returned to California, where he is running a nonprofit group called California Competes. His current cause is advocating fixes for capacity problems at the state's public colleges, which are largely budget driven. Shireman has said one possible part of the enrollment solution in California could be New Charter University, an upstart for-profit that plans to keep tuition down by not participating in Title IV financial aid programs. "If the community colleges aren't going to get creative in this crisis in figuring out how to serve the students who need courses and training, we need others stepping in to fill the gap in a way that doesn't put the students into the poorhouse," he told us via e-mail.

As for Harkin, at the Capitol Hill release of his report, the Iowa Democrat said for-profits are here to stay and will continue to help more disadvantaged and nontraditional students attend college. "Their success is in the national interest," he said, and then singled out several colleges for praise, a likely first for the industry's most powerful antagonist. Harkin said American Public Education, Strayer Education, Walden University and National American University had largely risen above problems found in the report. Receiving more watered-down compliments were Kaplan Higher Education, DeVry and Apollo, all of which have had "very serious problems" in the past, according to Harkin, but are now moving in the right direction.

Praise for Kaplan was particularly surprising, given how the company has often been a target of federal regulators. But Harkin isn't alone in his softer take on Kaplan: Bill Gates made flattering references to the company in 2012. Gates, who through his foundation wields a tremendous influence over higher education policy, appears to take a shine to some of Kaplan's strategies. He wrote a positive review for a book by Andrew Rosen, Kaplan's CEO, and hosted a Kaplan official on a panel about innovation in higher education.

When Gates, Shireman and Harkin all say for-profits will play a role in educating lower-income and adult students, it's a safe bet that at least part of the sector is on firm ground.

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Despite the thaw in rhetoric about for-profits, a further regulatory shake-up seems likely, even inevitable. But state policies are where much of the action is right now, particularly in California. And the biggest threats to for-profits these days might be accreditors and the recession's lingering effects.

Bridgepoint Education Inc. is the first major for-profit to feel the heat from accreditors. The publicly traded company is trapped in a vice serious enough that it may have to move most of its operations out of California. And even that might not be enough to save Bridgepoint's Ashford University, one of the biggest for-profit universities.

Bridgepoint's rapid growth helped lead to its being in the crosshairs. The company, which also owns the University of Rockies, rode Ashford's enrollment boom to Wall Street riches. Only five years ago 10,000 students attended Ashford, almost all of them fully online. Now more than 90,000 are enrolled there. Ashford is also the poster child for one of for-profit higher education's most controversial practices: the purchase of a struggling nonprofit college -- usually a Christian institution -- along with the college's regional accreditation. Critics have likened that strategy to buying a taxi medallion.

With financing from Warburg Pincus, Bridgepoint in 2005 bought the foundering Franciscan University of the Prairies and renamed it Ashford University. The purchase came with both a traditional residential campus and regional accreditation with the Higher Learning Commission of the North Central Association of Colleges and Schools, which is one of six regional accrediting agencies. But while Ashford has a football stadium and residence halls, almost all of its operation is online. In 2011, the university enrolled only 973 students on the campus.

Ashford's sparsely-populated physical campus became a symbol of the perceived excesses and hollow promise of for-profit education. And it probably didn't help that the campus is located in Clinton, Iowa, which is Harkin's backyard. The company's corporate headquarters, however, are located in San Diego. Harkin commissioned a special investigation of Bridgepoint, torching it during a 2011 hearing on the Hill. He criticized the university's explosive growth online, apparent shell campus and heavy reliance on federal aid, calling Bridgepoint a "scam, an absolute scam."

But the real impact of Harkin's denunciations was more indirect. He also called out the Higher Learning Commission for blessing the company's purchase of its campus and accreditation. And that stinging criticism appears to have contributed to a stricter approach by the commission, which had formerly been among the friendliest to for-profits.

The Harkin hearing on Bridgepoint was billed as a case study on for-profit regulation, which focused heavily on how regional accreditors function as outsourced government contractors to decide which companies should be eligible to participate in federal aid programs. That can be a tricky task, particularly with private-equity backed companies that don't exactly relish opening their books to regulators. Harkin said the accreditors lacked the resources and expertise to keep tabs on the fast-growing for-profit sector, particularly the Higher Learning Commission, which is tasked with overseeing 19 states. He didn't mince words.

Bridgepoint's founder and CEO, Andrew S. Clark, opted to skip the hearing. So Sylvia Manning, the commission's president, got the worst of the hot seat. "The question I would ask is, in their current state, are our accreditation agencies equipped to oversee billion-dollar, multi-state corporations?" Harkin asked Manning. He then answered the question for her. "I don't think so. I don't think the accrediting agencies have the wherewithal."

Despite the hearing's theatrics, the commission had already begun taking a harder line on for-profits. Manning took over the lead role at the Chicago-based commission in 2008. She had been publicly skeptical about the industry, and promised to better vet for-profits. Perhaps the most visible example of a change came in 2010, when the commission rejected two for-profits' attempted purchases of failing Christian colleges, which has had a broad chilling effect on accreditation shopping nationwide.

That year Manning's group turned down a new for-profit entity's bid to purchase of Dana College, a Lutheran institution in Nebraska. Without a buyer, the college was forced to shutter, and was eventually subsumed by Midland Lutheran College, which changed its name to Midland University. Also in 2010, the commission nixed a continuation of accreditation for Rochester College, located in Michigan, which was in the midst of a planned buyout by University Education, a publicly-traded for-profit with a specialty in online education.

The commission did not release detailed information on those decisions. That relatively secretive approach has been the norm among regional accreditors, until a recent shift by the Western Association of Schools and Colleges senior college commission. But the commission disclosed that it had new, stricter rules for changes of ownership, and would now require buyers to demonstrate that they would maintain certain characteristics of purchased colleges. Manning said at the time that the basic standard was an "an extension of the mission, educational programs, student body and faculty that were in place when the commission last conducted an onsite evaluation of the affiliated institution." As a result, a for-profit can still buy a college and go for a full facelift by taking a residential, religious campus and creating a mostly-online university that caters to adult students -- akin to what Harkin calls Ashford's "radical reinvention." But existing accreditation will no longer be part of the deal in that scenario, Manning said, and the company would need to apply for the college to be a candidate for initial accreditation.

Meanwhile, as for-profits everywhere came to grips with not being able to buy regional accreditation, Ashford continued its rapid expansion with a campus base deep in the heart of Higher Learning Commission territory. That now looked dicey, with the commission now requiring colleges to have a "substantial presence" in their region. So the company started looking for a new home for Ashford, and began the application process for accreditation with the Western Association. The verdict would have high stakes, for both Bridgepoint and the industry more broadly, with Harkin and other for-profit critics joining investors in watching closely.

The Western Association brought in a group of heavy-hitters in higher education to review Ashford's application, with a 12-member site visit team led by Stanley O. Ikenberry, a professor and president emeritus of the University of Illinois and former president of the American Council on Education. The final report, which went live in July, was the first major review that a regional accreditor released to the public. The 73-page document was a stinging blow to Bridgepoint, arguing that the university fell short in several measures of quality. And behind most of the university's problems was its emphasis on growth, according to the report.

“The challenges that this rapid growth and enrollment model present to management, quality and student success cannot be overstated,” said Ralph A. Wolff, the association’s president, in a letter to Elizabeth Tice, Ashford’s president and CEO. “Although the team found that Ashford has sought to keep pace by building its infrastructure to support this large number of online students, many of its promising initiatives are recent, some only undertaken within the last year.”

The accreditor found that Ashford lacked a “sufficient core” of professors, with 56 full-time faculty members in 2011, 2,458 part-time faculty and 875 other instructional staff. Those numbers don’t cut it for 90,000 students, the report said. Other identified problem areas were questionable academic rigor in some programs and inadequate student support services. And these deficiencies all contribute to an “unacceptable” dropout rate, according to the report. It found that 128,000 students withdrew from the university over the last five years, a time during which Ashford enrolled 241,000 new students, meaning that more than 50 percent dropped out.

The Western Association rejected Ashford’s bid. And the university’s problems have only worsened since then. A week later the Higher Learning Commission wrote Bridgepoint to demand an explanation of how Ashford was complying with its current terms of regional accreditation. The company has a short timeline to make its case. And most observers said Ashford would need to make big changes to keep its accreditation. In the following months, the company’s share price plummeted, with the former high-flier bottoming out at less than a third of its peak market value only one year earlier. Ashford later laid-off 450 admissions reps and reassigned another 400 to student services, all in an attempt to comply with the commission.

The company remained in a perilous position in the fall of 2012. The loss of regional accreditation appears to be a real threat. Ashford continues to advertise heavily, with commercials in heavy rotation during the Summer Olympics. But without accreditation, the university will not survive, at least not in any recognizable form. In 2010, fully 85 percent of Bridgepoint’s revenue was from federal financial aid sources. Ashford’s business model obviously relies on adult students being able to use Pell Grants and other federal aid. Without accreditation, the aid and students disappear, and so does Ashford. Other for-profits and their advocates are watching Ashford’s struggle closely, because the stricter approach by the two accreditors could apply to other segments of the industry, and become the new standard for regional accreditation.

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Bridgepoint is hardly the only for-profit facing an existential challenge. In fact, American Public Education and Grand Canyon University are the only major, publicly traded for-profits that are still growing. The rest are coping with tumbling enrollments and at least some possible regulatory heat. Over all, Education Department data show that the sector’s enrollment declined by nearly 3 percent from fall 2010 to fall 2011,and anecdotal reports suggest that further dips have occurred since then.

The industry’s deep slump has been jarring to its advocates and investors, who made lots of money in the wake of Bush-era deregulation. The model worked in part because of multi-million

dollar marketing aimed at potential students who might otherwise have attended community colleges or, more likely, not considered going to college at all. For a while there was no end in sight to the growth, which made for-profits the darlings of Wall Street. But much of the industry's quick expansion was fueled by lesser-prepared students who were unlikely to graduate, and racked up big debt along the way. Those students now come with potential regulatory and P.R. risks that may outweigh potential payoffs.

One sign of that shift was the end of federal financial aid for "ability to benefit" students, who wanted to attend college but lacked either a high school degree or GED. This group used to be able to qualify for federal aid by taking a basic skills test or by successfully completing six college credits. For-profits were the likely destination of these students. But with annual federal expenditures of Pell Grants expected to hit $40 billion, Congress shut off the ability-to-benefit funding in the summer of 2012.

At the same time, the relatively expensive tuition of most for-profits has begun to look like a riskier investment. Job seekers tend to attend college during an economic downturn. But years of high unemployment rates tends to have a chilling effect on higher education. Even with huge marketing budgets, for-profits increasingly struggle to entice students. Some financial analysts say the industry may have already churned through most of their potential student markets.

For-profits were the first to target adult students with convenient, online academic offerings. No longer, as the marketplace is getting increasingly crowded with upstart nonprofits like Western Governors University, the University of Maryland University College, Liberty University and the Southern New Hampshire University, all of which have national reach with fast-growing online programs.

With limited exceptions, for-profits can expect modest enrollment and revenue growth over the next few years, at best. And for those that grew too big, a painful period of shrinking will come first. Some for-profits aren't waiting for that to happen, and have proactively lopped off some of their market-share. Others have taken a page from the nonprofit playbook and are discounting their tuition to help attract students. Strayer, ITT and Grand Canyon all have substantial scholarships in place. ITT, for example, in October 2012 introduced a 20 percent tuition discount for new students in its associate degree programs.

Phoenix and Kaplan were among the worst offenders in courting students who had little chance of earning a credential. But the two institutions have also taken the lead with the most visible of intentional enrollment sacrifices, which have landed them praise from even strident for-profit critics. Both institutions recently introduced trial periods for students, which allow them to either quit or get the boot without spending anything. Phoenix has a free, three-week orientation for students while Kaplan only charges an application fee for its five-week trial period.

Both such programs have been expensive. About one in four students washout at Kaplan during the introductory session, only 40 percent of them voluntarily. The university asks the rest to leave after determining that they are not performing well enough. The trial period cost the

university $27 million during a six-month period in 2011. Kaplan has felt the sting, and in 2012 closed nine campuses and consolidated four others.

The University of Phoenix remains the most visible for-profit, by far. Its name is still a stand-in for “online” and “for-profit” to policymakers and the general public. But the Apollo-owned flagship has been buffeted of late, and its woes have prompted many to predict that for-profits are on their way out. With a double-digit annual decline in both enrollment and revenue, critics of for-profits were ready to dance on Phoenix’s grave.

But don’t count the university out just yet. With some self-inflicted and purposeful wounds, Phoenix is reloading as part of a broad “re-engineering” that could position it for a next stage in the evolution for-profit higher education. The university is likely to be among survivors that cut or maintain their prices, improve selectivity and develop stronger ties to employers, even shaping their curriculums around workplace-determined competencies.

With 330,000 students on a degree track, Phoenix is the largest for-profit. However, that enrollment number is down more than 30 percent since the university’s peak level in 2010. And its operating expenses remained unchanged since those salad days. So in October the university announced $300 million in planned cuts, with layoffs of 800 non-faculty employees and the shuttering of 25 campuses and 90 smaller learning centers. The closures represent about 40 percent of the university’s physical footprint. Phoenix is cagey about disclosing which percentage of their students are fully online, versus the hybrid variety who rely on campuses for classrooms-based learning and their IT needs. But a large majority are fully online, according to company officials. So the closed locations will only affect about 13,000 students, many of whom live within 25 miles of another Phoenix spot.

The university was the first go nationwide in serving working adults with vocational programs. That business model, which goes back 40 years, needed updating, Apollo group executives say. Financial analysts agree, saying the attempt to “right-size” the university was overdue.

The larger challenge may be what company officials call Phoenix’s “value proposition.” Tuition rates vary at the university, but generally hover around $420 per credit. That’s a fairly average price for the for-profit sector, but much more than competitors like Western Governors, with self-paced, competency-based programs that run about $240 per credit. Rio Salado College, an Arizona-based online community college, charges $76 per credit for local students, and $317 for out-of-state students. As a result, Phoenix’s leaders say they realize the university must demonstrate more bang for students’ tuition buck.

So in addition to shrinking, Phoenix in September announced a university-wide tuition freeze for all current and incoming students. And as a further sell, the university is doubling-down on career services, with a slick new advertising campaign about the push. That effort includes bulked-up partnerships with corporations, including Microsoft, Hitachi Data Systems, Rubbermaid and others. And Phoenix is working with nonprofit trade groups that represent industries, like the manufacturing and energy industries, to create tailored degree programs and

to help students find jobs. Dubbed “Let’s get to work,” the campaign’s ads tout that Phoenix is ramping up career planning services to help students “get ahead” in their careers.

“This is a more competitive industry today,” Gregory W. Capelli, Apollo’s CEO, told investors in October. “We’ve been preparing for this for some time. We want to be the university of choice for working learners.”

Looking Forward

California may give a glimpse of the future for the for-profit industry. The state is often ahead of the curve, but in this case desperation may be as much of a driver as innovation. After years of deep budget cuts, California's 112 community colleges and the California State University System have struggled to meet demand, and have been forced to turn away hordes of students -- as many as 300,000 in 2012 for community colleges alone.

Somehow California has to find a way to educate and train its work force, and for-profits are certain to be part of the solution. It might also be hard to tell which of the next generation of for-profits in California are actually for-profits.

Take the newly launched Ameritas College, which is aimed at serving Hispanic students. Ameritas will charge roughly $400 per credit, with a teaching model of a single three-hour course per week bolstered by 2.5 hours of online coursework. The new college will be jointly operated by Brandman College -- an entrepreneurial nonprofit college that is itself a spin-off of the Chapman University System -- and by the University Ventures Fund, a for-profit investment group with a college completion mandate written into its charter. Ryan Craig is the fund's founding partner. He has also been a Bridgepoint director since that company's founding, having previously worked at Warburg Pincus, which helped bankroll Ashford's creation. Brandman and the fund co-own Ameritas College Educational Services, a corporate entity that will provide money, research and administrative services to Ameritas College. So is Ameritas a for-profit? A better question might be: who cares?

Not all for-profits, however, will keep their seat at the table in California. An early battle has been over Cal Grants, the nation's most generous state-based financial aid program, which ran up a bill of $1.6 billion last year. As a result, the California Student Aid Commission decided to tighten the rules about which colleges can qualify to receive Cal Grants. State officials clearly targeted the for-profit sector, and came up with some novel ways to eliminate low-performing colleges. The new requirements are tighter than the federal gainful employment regulations.

For example, colleges must have three-year loan default rates of less than 24.6 percent to be Cal Grant-eligible. That is a much higher bar than the 35 percent loan repayment rate under gainful employment, which means that 65 percent of graduates can be in default. The new rules knocked out 16 campuses owned by Corinthian Colleges, for example, including all 14 Everest College locations in California.

However, the Cal Grant crackdown will not be a problem for the for-profit UniversityNow, an investor-backed enterprise that opened its New Charter University in 2012. The startup will lean heavily on self-paced, online and competency-based learning -- the troika of hot ideas in higher education. And it has received a decent chunk of funding to get started, including a grant from the Bill & Melinda Gates Foundation. Students will pay $199 a month to take as many classes as they want at New Charter, which will rely on a "disaggregated coaching model" of teaching to keep costs down. Also helping on that front will be the university's decision to opt out of participating in federal financial aid programs, a process that comes with a load of red tape and administrative costs.

UniversityNow got some good news last summer from the Western accrediting agency. On the same day that the regional accreditor rejected Ashford's bid, it accepted UniversityNow's purchase of Patten University, a struggling nonprofit college in Oakland. Accreditation buying is still alive, apparently, but with a twist. UniversityNow plans to make a degree from Patten inexpensive -- really inexpensive. Tuition will be a flat fee of $1,300 a month. And an online bachelor's degree will run just over $10,000, said Gene Wade, UniversityNow's CEO.

So it doesn't really matter that Patten also got tossed out of the Cal Grant program, because students won't need Cal Grants to attend. And the university's new owners said they are transitioning it out of being Title IV eligible as well.

"This current rule change will have little negative impact on Patten," Wade said when asked about the tightened Cal Grant regulations. "However, it should lead to increased demand since more students will need affordable private options."

It's hard to argue with potential solutions to the capacity problem in California. Profit, it seems, is not the issue in the state. If colleges can offer a high-quality, low-priced product, they will probably be welcomed in California, regardless of tax status. And that litmus test will probably spread to other states, where public funding for higher education is unlikely to return to pre-recession levels anytime in the foreseeable future.

Of course, colleges will need to graduate decent proportions of students to stay in favor, whether in California or elsewhere. Deborah A. Santiago is co-founder of Excelencia in Education, a group focused on Latinos in higher education. She likes the mission of Ameritas, saying it is sorely needed in California. And Santiago is unfazed by the college's for-profit ties. Proof that the model works, she said, will be in graduation rates. “The devil in the details is really the issue of completion."