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Business

The New Poor

In Hard Times, Lured Into Trade School and Debt

Leah Nash for The New York Times
Susana Holloway of Le Cordon Bleu's culinary school in Portland, Ore., where a 15- or 21-month program costs $41,000.

By PETER S. GOODMAN
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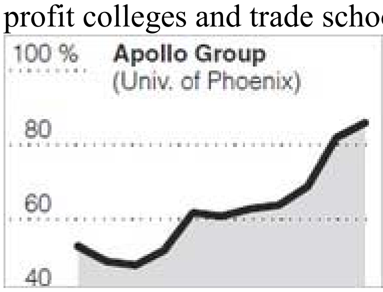
One fast-growing American industry has become a conspicuous beneficiary of the recession: for-profit colleges and trade schools.



Living Off Loans

At institutions that train students for careers in areas like health care, computers and food service, enrollments are soaring as people anxious about weak job prospects borrow aggressively to pay tuition that can exceed $30,000 a year.

But the profits have come at substantial taxpayer expense while often delivering dubious benefits to students, according to academics and advocates for greater oversight of financial aid. Critics say many schools exaggerate the value of their degree programs, selling young people on dreams of middle-class wages while setting them up for default on untenable debts, low-wage work and a struggle to avoid poverty. And the schools are harvesting growing federal student aid dollars, including Pell grants awarded to low-income students.

Leah Nash for The New York Times

Career Education Corporation's culinary schools, many called Le Cordon Bleu, teach skills like ice sculpture.

"If these programs keep growing, you're going to wind up with more and more students who are graduating and can't find meaningful employment," said Rafael I. Pardo, a professor at Seattle University School of Law and an expert on educational finance. "They can't generate income needed to pay back their loans, and they're going to end up in financial distress."

For-profit trade schools have long drawn accusations that they overpromise and underdeliver, but the woeful economy has added to the industry's opportunities along with the risks to students, according to education experts. They say these schools have exploited the recession as a lucrative recruiting device while tapping a larger pool of federal student aid.

"They tell people, 'If you don't have a college degree, you won't be able to get a job,' " said Amanda Wallace, who worked in the financial aid and admissions offices at the Knoxville, Tenn., branch of ITT Technical Institute, a chain of schools that charge roughly $40,000 for two-year associate degrees in computers and electronics. "They tell them, 'You'll be making beaucoup dollars afterward, and you'll get all your financial aid covered.' "

Ms. Wallace left her job at ITT in 2008 after five years because she was uncomfortable with what she considered deceptive recruiting, which she said masked the likelihood that graduates would earn too little to repay their loans.

As a financial aid officer, Ms. Wallace was supposed to counsel students. But candid talk about job prospects and debt obligations risked the wrath of management, she said.

"If you said anything that went against what the recruiter said, they would threaten to fire you," Ms. Wallace said. "The representatives would have already conned them into doing it, and you had to just keep your mouth shut."

A spokeswoman for the school's owner, ITT Educational Services, Lauren Littlefield, said the company had no comment.

The average annual tuition for for-profit schools this year is about $14,000, according to the College Board. The for-profit educational industry says it is fulfilling a vital social function, supplying job training that provides a way up the economic ladder.

“When the economy is rough and people are threatened with unemployment, they look to education as the way out,” said Harris N. Miller, president of the Career College Association, which represents approximately 1,400 such institutions. “We’re preparing people for careers.”

Concerned about aggressive marketing practices, the Obama administration is toughening rules that restrict institutions that receive federal student aid from paying their admissions recruiters on the basis of enrollment numbers.

The administration is also tightening regulations to ensure that vocational schools that receive aid dollars prepare students for “gainful employment.” Under a proposal being floated by the Department of Education, programs would be barred from loading students with more debt than justified by the likely salaries of the jobs they would pursue.

“During a recession, with increased demand for education and more anxiety about the ability to get a job, there is a heightened level of hazard,” said Robert Shireman, a deputy under secretary of education. “There is a lot of Pell grant money out there, and we need to make sure it’s being used effectively.”

The administration’s push has provoked fierce lobbying from the for-profit educational industry, which is seeking to maintain flexibility in the rules.

A Lucrative Business

The stakes are enormous: For-profit schools have long derived the bulk of their revenue from federal loans and grants, and the percentages have been climbing sharply.

The Career Education Corporation, a publicly traded global giant, last year reported revenue of $1.84 billion. Roughly 80 percent came from federal loans and grants, according to BMO Capital Markets, a research and trading firm. That was up from 63 percent in 2007

he Apollo Group — which owns the for-profit University of Phoenix — derived 86 percent of its revenue from federal student aid last fiscal year, according to BMO. Two years earlier, it was 69 percent.

For-profit schools have proved adept at capturing Pell grants, which are a centerpiece of the Obama administration’s efforts to make higher education more affordable. The administration increased financing for Pell grants by $17 billion for 2009 and 2010 as part of its $787 billion stimulus package.

Two years ago, students at for-profit trade schools received $3.2 billion in Pell grants, according to the Department of Education, less than went to students at two-year public institutions. By the 2011-12 school year, the administration now estimates, students at for-profit schools should receive more than $10 billion in Pell grants, more than their public counterparts. (Those anticipated increases may shrink, depending on the outcome of wrangling in Congress over health care and student lending.)

Enrollment at for-profit trade schools expanded about 20 percent a year the last two years, more than double the pace from 2001-7, according to the Career College Association.

Mr. Miller, the association's president, said for-profit schools were securing large numbers of Pell grants because their financial aid offices were diligent and because the schools served many low-income students.

But financial aid experts say the surge of federal money reaching such institutions reflects something else: their aggressive, sometimes deceitful recruiting practices.

Jeffrey West was working at a pet store near Philadelphia, earning about $8 an hour, when he saw advertisements for training programs offered by WyoTech, a chain of trade schools owned by Corinthian Colleges Inc., a publicly traded company that last year reported revenue of $1.3 billion.

After Mr. West called the school, an admissions representative drove to his house to sell him on classes in auto body refinishing and upholstering technology, a nine-month program that cost about $30,000.

Mr. West blanched at the tuition, he recalled, but the representative assured him the program amounted to an antidote to hard economic times.

"They said they had a very high placement rate, somewhere around 90 percent," he said. "That was one of the key factors that caused me to go there. They said I would be earning $50,000 to $70,000 a year."

Some 14 months after he completed the program, Mr. West, 21, has failed to find an automotive job. He is working for $12 an hour weatherizing foreclosed houses.

With loan payments reaching $600 a month, he is working six and seven days a week to keep up.

"I've got $30,000 in student loans, and I really don't have much to show for it," he said. "It's really frustrating when you're trying to better yourself and you wind up back at Square One."

Corinthian says it bars its recruiters from making promises about pay.

"The majority of our students graduate," said a spokeswoman, Anna Marie Dunlap, in a written statement. "Most see a significant earnings increase."

The increase in market opportunities for the for-profit education industry comes as governments spend less on education. In states like California, community colleges have been forced to cut classes just when demand is greatest.

"This is creating a very ripe environment for the for-profit schools to pick off more students," said Lauren Asher, president of the Institute for College Access & Success, a nonprofit research group based in California that seeks to make higher education more affordable. “The risks of exploitation are higher, and the potential rewards of those practices are higher.”

For-profit culinary schools have long drawn criticism for leading students to rack up large debts. Now, they are enjoying striking growth. Enrollment at the 17 culinary schools of the Career Education Corporation — most of them operated under the name Le Cordon Bleu — swelled by 31 percent in the final months of last year from a year earlier.

When Andrew Newburg called the Le Cordon Bleu College of Culinary Arts in Portland, Ore., to seek information, he was feeling pressure to start a new career. It was 2008, and his Florida mortgage business was a casualty of the housing bust. An associate degree in culinary arts from a school in the food-obsessed Pacific Northwest seemed like a portal to a new career.

The tuition was daunting — $41,000 for a 15-month or 21-month program — but he said the admissions recruiter portrayed it as the entrance price to a stable life.

“The recruiter said, ‘The way the economy is, with the recession, you need to have a safe way to be sure you will always have income,’ ” Mr. Newburg said. “ ‘In today’s market, chefs will always have a job, because people will always have to eat.’ ”

According to Mr. Newburg, the recruiter promised the school would help him find a good job, most likely as a line cook, paying as much as $38,000 a year.

Last summer, halfway through his program and already carrying debts of about $10,000, Mr. Newburg was alarmed to see many graduates taking jobs paying as little as $8 an hour washing dishes and busing tables, he said. He dropped out to avoid more debt.

“They have a basic money-making machine,” Mr. Newburg said.

More Bills Than Paychecks

Career Education says admissions staff are barred from making promises about jobs or salaries. The school requires students to sign disclosures stating that they understand that its programs afford no guarantees.

But promotional materials convey a sense of promise.

“Our students are given the tools needed to become the future leaders in the industry,” proclaims the Le Cordon Bleu Web site. “Many graduates have attained positions of responsibility, visibility, and entrepreneurship soon after completing their studies.”

The job placement results that the school files with accrediting agencies suggest a different outcome. From July 2007 to June 2008, students who graduated from the culinary arts associate degree program landed jobs that paid an average of $21,000 a year, or about $10 an hour. Oregon’s minimum wage is $8.40 an hour.

The job placement list is cited in a class-action lawsuit filed against the Portland school — previously known as Western Culinary Institute — by graduates who allege fraud, breach of contract and unlawful trade practices. Executives at Career Education denied the allegations while asserting it would be wrong to judge the school on the basis of its graduates' first jobs.

"You go out in the industry and work your way up," said Brian R. Williams, the company's senior vice president for culinary arts.

On a recent morning at the campus in Portland, hundreds of students donning chef's whites labored in demonstration kitchens stocked with stainless steel countertops and commercial gas ranges. A chef inspected plates of boeuf Bourgogne and risotto Milanese. Students melted and pulled sugar into multicolored ribbons. Others used a chainsaw to sculpture blocks of ice into decorative centerpieces.

"It's employable skills; that's what we teach people here," said the school president, Jon Alberts. "We try to give them as much of an industry experience in the classroom as possible."

But several local chefs said the program merely simulated what students could learn in entry-level jobs.

"When they graduate and come in the kitchen, I tell them, 'I'm going to treat you like you don't know anything,' " said Kenneth Giambalvo, executive chef at Bluehour, an upscale restaurant in Portland's Pearl District. "It doesn't really give them any edge."

What the school does give many students is debt, often at double-digit interest rates — debt that even bankruptcy cannot erase without a lengthy, low-odds legal proceeding.

When TJ Williams arrived in Portland from his home in Utah to enroll at Le Cordon Bleu in 2007, he was shocked by the terms of the aid package the school had arranged for him: One loan, for nearly $14,000, carried a $7,327 "finance charge" and a 13 percent interest rate.

"They told me that halfway through the program, I could probably refinance to a lower rate," he said.

When he tried to refinance, the school turned him down, he says.

Career Education declined to discuss Mr. Williams's case, citing privacy restrictions and saying he had not signed a waiver.

Mr. Williams has been jobless since last fall and recently returned to Utah, where he moved in with his mother.

After Graduation

The Career Education Corporation e-mailed The New York Times names and contact information for four graduates "with whom we hope you'll touch base for important perspective." One came with a wrong number. A second had graduated 15 years ago.

A third, Cherie Thompson, called the program "a really positive experience" but declined to discuss her debts or earnings. The fourth, Ericsel Tan, graduated in 2003 and later earned $42,000 a year overseeing catering at a convention center near Seattle. He said his success reflected his seven years of kitchen experience prior to culinary school.

Career Education notes that only 5.9 percent of the federal loans to students at the Western Culinary Institute that began to come due in 2007 — the latest available data — are listed in default by the Department of Education.

But default rates have traditionally reflected only those borrowers who fail to pay in the first two years payments are due.

The Department of Education has begun calculating default rates for three years. By that yardstick, Western Culinary's default rate more than doubles, to 12.5 percent.

For-profit schools have ramped up their own lending to students to replace loans formerly extended by Sallie Mae, the student lending giant.

These loans are risky: Career Education and Corinthian recently told investors they had set aside roughly half the money allocated this year for private lending to cover anticipated bad debts.

Financial aid experts say such high rates of expected default prove that graduates will not earn enough to make their payments, yet the loans make sense for the for-profit school industry by enabling the flow of taxpayer funds to their coffers: they satisfy federal requirements that at least 10 percent of tuition money come from students directly or from private sources.

"They're making so much money off their federal student loans and grants that they can afford to write off their own loans," said Ms. Asher of the Institute for College Access & Success.

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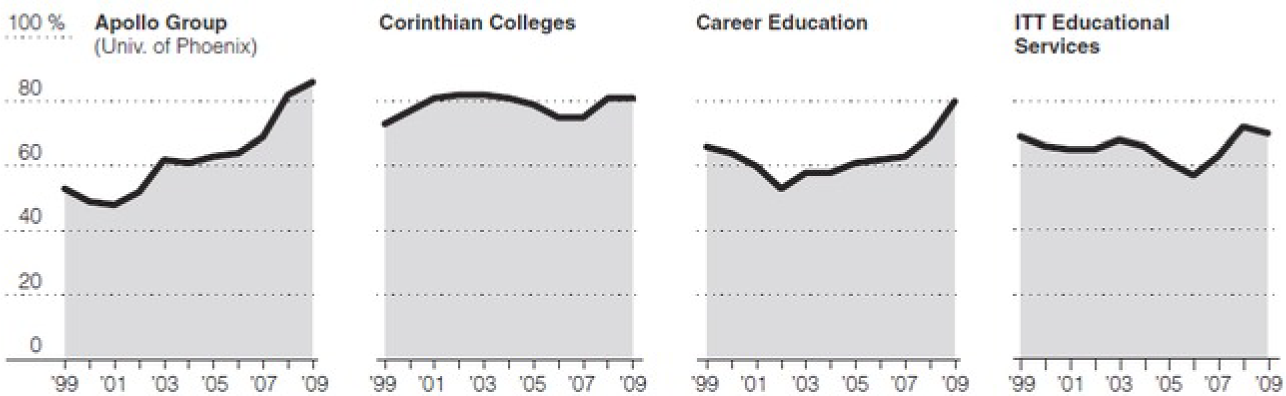
Federal student loans have become a bigger part of the revenue of many for-profit colleges and trade schools.

SHARE OF REVENUE FROM FEDERAL LOANS AND GRANTS



Sources: BMO Capital Markets; company reports

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