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For-Profit Bridgepoint Says Its Colleges Will Become Non-Profit (But It Won't)

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(https://i2.wp.com/www.republicreport.org/wp-content/uploads/2014/04/bridgepoint-ceo-clark.jpg?ssl=1)

Sunday we wrote about the new gold rush in education: for-profit colleges converting to non-profit status (https://www.republicreport.org/2018/betsy-devos-facilitates-profit-colleges-conversion-therapy/), allowing them to shed the stigma and special regulatory requirements of for-profits, notably the federal 90-10 rule, while retaining parallel for-profit entities that could keep getting paid by the non-profit, and thus keep getting rich off an endless flow of taxpayer dollars. The Obama administration had stopped an egregious example of this phenomenon — the conversion of predatory schools run by wealthy Carl Barney — and warned against future such trickery, but Trump education secretary Betsy DeVos is now approving these deals, creating a celebratory mood (http://www.p3edu.com/) among sharp operators in the for-profit education world.

This morning, one of the most egregiously abusive actors in the for-profit college industry, publicly-traded, San Diego-based Bridgepoint Education, got on the non-profit gravy train; it filed a disclosure document (https://www.sec.gov/Archives/edgar/data/1305323/000130532318000015/a8-kxitem801delaware.htm) with the SEC stating that it is seeking permission from its accreditor to merge the two schools it runs, Ashford University and University of the Rockies, into one entity, and then convert that school "to a not-for-profit California public benefit corporation." Bridgepoint added, "Following the conversion, the Company anticipates that it would provide certain services to the newly formed not-for-profit university."

Bridgepoint says it expects its accreditor, the WASC Senior College and University Commission ("WSCUC"), to act on these applications as soon as its next meeting, in June.

Bridgepoint CEO Andrew Clark said in a statement (https://www.prnewswire.com/news-releases/bridgepoint-education-inc-plans-to-separate-from-ashford-university-improve-access-to-high-quality-education-300612798.html), "we believe this transformation will permit us to continue to pursue our mission in new and exciting ways."

Clark should be excited. He received $2,972,739 in total compensation for fiscal 2016 — he's gotten as much as $20.5 million in a single year (2009) — and now he's found a potential way to save Bridgepoint/Ashford from the bad reputation of for-profit colleges, a bad reputation that his own company has done so much to create.

As we wrote yesterday, legitimate non-profit colleges contract out some services to for-profit companies, and some such deals surely make economic sense. But we said that all such deals deserve proper scrutiny, and particularly should be reviewed in certain conditions: where the contracting with a single for-profit company extends to a wide range of operations, where there are business deals with insiders, and where companies with a history of deceptive practices and predatory abuses are involved.

While we haven't seen the details of the Bridgepoint restructuring yet, the company's record provides no reason to optimistic about the public benefits of this deal.

Goodbye to 90/10 Rule

Bridgepoint may be especially motivated to free itself from the 90-10 rule, which applies only to for-profit schools. The 90-10 rule is a federal law requiring for-profit colleges to obtain at least 10 percent of their revenue from sources other than Department of Education-provided student grants and loans.

Ashford University's 90-10 rate for 2015-2016 is 81 percent of its $476 million in revenues; the University of the Rockies' rate is 87 percent of its $20.6 million in revenues. A recent report (https://static1.squarespace.com/static/556718b2e4b02e470eb1b186/t/5a043bdfc83025336298845f/1510226911840/VES+90%3A10+R +FINAL.pdf) from Veterans Education Success reveals that in 2013-14 Ashford obtained $546,796,000 in Education Department aid, plus $81,859,427 in VA and Pentagon benefits, for a total of 98.4 percent of its revenue coming from federal sources, while the University of the Rockies had $22,346,000 from the Education Department and $1,853,544 from VA and TA, for a total of 94.8 percent federal money. (An Ashford spokesperson told me in November that the 2013-14 revenue figures "are almost five years old, and therefore not relevant to our current status," but she did not share what the latest numbers are.)

VA and Pentagon benefits do not now count as federal money for purposes of the 90-10 rule, but there have been bills in Congress (https://www.durbin.senate.gov/newsroom/press-releases/durbin-senators-reintroduce-military-and-veterans-education-protection-act-with-groundbreaking-support-from-veterans-service-organizations), strongly supported by veterans groups, to change that, and to change the ratio to 85-15, because the current system creates incentives (http://www.nytimes.com/2011/09/22/opinion/for-profit-colleges-vulnerable-gis.html) for colleges to exploit veterans and military service members.

Non-profit conversion would end Bridgepoint's obligation to meet 90-10, which its schools have come perilously close to flunking in the past.

David Hawkins, Executive Director for Educational Content and Policy at National Association for College Admission Counseling, noted another potential risk that these kinds of restructurings posed in terms of protecting students. Federal rules prohibit colleges from paying admissions staff incentive compensation, a.k.a. sales commissions, for enrolling students. But Hawkins noted that the Department of Education carved out a regulatory loophole for "bundled services," and the GOP's PROSPER act legislation now pending in Congress, would write that exemption into statute. "Basically," Hawkins says, "this type of arrangement would allow the for-profit arm of the 'Company' to service the 'non-profit' institution with a bundle of services, which these entities could use to get around the incentive compensation prohibition—at the very least, it makes the Department work almost impossibly hard to prove a violation."

Bridgepoint's Troubling Record

Bridgepoint Education has been under investigation for fraud and other abuses by four federal agencies and five state attorneys general (http://www.republicreport.org/2014/law-enforcement-for-profit-colleges/).

A 2009 Bloomberg story (http://www.bloomberg.com/news/articles/2009-12-30/for-profit-colleges-target-the-military) about for-profit college recruiting on military bases began with this account of a U.S. marine attending a Bridgepoint school: "U.S. Marine Corporal James Long knows he's enrolled at Ashford University. He just can't remember what course he's taking. The 22-year-old from Dalton, Ga., suffered a traumatic brain injury, impairing his ability to concentrate, when artillery shells hit his Humvee in Iraq in 2006. He signed up for Ashford, one of at least a dozen for-profit colleges making money off active-duty military with subsidies from American taxpayers, after its recruiter gave a sales pitch this year at a barracks housing the Wounded Warrior Battalion at Camp Lejeune in North Carolina."

When Bridgepoint bought a Clinton, Iowa, 87-year-old religious college, The Franciscan University, along with its accreditation, in 2005, and turned it into for-profit, largely online Ashford University, the town expressed concern about the future of the campus and the jobs it provided. Ashford's new president promised the Clinton city council, "We will never, ever get rid of the Clinton campus." In summer 2015, capping a decade of troubling behavior, Ashford announced (http://www.clintonherald.com/news/local_news/how-did-ashford-go-from-boom-to-bust/article_4a1cbf22-6aab-5a34-aca8-a3b433b162a5.html?mode=jqm) it was getting rid of the Clinton campus (https://www.insidehighered.com/news/2015/07/15/ashford-us-closure-and-what-it-says-about-profit-higher-ed).

In March 2011, Senator Tom Harkin (D-IA) held a hearing focusing on Bridgepoint. Harkin presented a series of charts showing that the company had seen rapid growth, with revenues increasing from $33 million in 2008 to $216 million in 2010, while experiencing mounting student loan default rates. Harkin said Bridgepoint was "a scam, an absolute scam ... premised on aggressively recruiting

largely low-income, disadvantaged students … collecting their federal grants and loans even as the vast majority of students drop out … and lavishly rewarding executives and shareholders with mostly taxpayer dollars." He concluded, "From a strictly business perspective, this is a highly successful model. But, I must say, from an educational perspective — and, frankly, from an ethical perspective — it is deeply disturbing model."

Senator Harkin's 2012 report on the for-profit college industry found that Bridgepoint taught its recruiters "a sales technique known as 'overcoming objections.' If a student presented an 'objection' to enrolling, recruiters were instructed to think of this as a 'buying signal' that tells the recruiter 'the student is still paying attention and the "sale" is still alive!' If a student objected that the cost of attending is too high, the recruiter was taught to respond with questions such as, 'Investing in yourself . . . You're worth it right?,' and 'how much more will you make once you have your degree?,' and by discussing how 'financing options [are] available for those who qualify.' If a student raised the 'credibility/reputation' of Ashford, recruiters were taught to recite promotional statements about how the college was 'established in 1918,' discuss the 'traditional 4-year campus with sports teams, dormitories,' and how the college has been 'regionally accredited since 1950.' In fact, Ashford University … is an entirely different institution than the small religious college that Bridgepoint purchased in 2005. Ninety-nine percent of students do not attend the small Iowa 4-year campus."

The Harkin report contains accounts by students who contend they were misled by Bridgepoint recruiters, including a veteran who was told his GI bill benefits would cover the entire cost of his degree, only to find out after he was enrolled that he would owe approximately $11,000 out-of-pocket; and a student told that his program would allow him to become a licensed dental assistant only to find that claim was false.

The Harkin report found that Bridgepoint spent 29.7 percent of its revenue — $211.6 million — on marketing and recruiting, a higher proportion of its than any other publicly traded education company, and more than twice what the company spent on teaching students.

In May 2014, Bridgepoint agreed to pay $7.25 million to settle (https://www.iowaattorneygeneral.gov/media/cms/Bridgepoint_Ashford_Iowa_Attorney_G_F0271005A595B.pdf) claims by Iowa Attorney General Tom Miller that the company violated Iowa's Consumer Fraud Act. Miller said (https://www.iowaattorneygeneral.gov/newsroom/ashford-university-and-parent-company-bridgepoint-education-agree-to-7-25-million-payment-and-majo/) at time, "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. 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." Miller alleged "unconscionable sales practices through which Ashford telemarketers, under significant pressure to enroll students," violated the law. These included: making false or misleading statements to prospective students in order to convince them to enroll; utilizing unfair and high-pressure sales tactics, including emotionally-charged appeals to persuade prospective students to make uninformed decisions to enroll; misrepresenting to prospective students who wished to become teachers that an online Ashford education degree would allow them to become classroom teachers when, in fact, many Ashford graduates are subject to additional requirements that may require additional time, coursework, or money. Bridgepoint denied the charges.

Bridgepoint filed a disclosure form (https://www.sec.gov/Archives/edgar/data/1305323/000130532315000066/bpi093015form10-q.htm) with the SEC in November 2015 indicating that the company was in hot water with the Department of Education, which notified the company that, because of concerns about the inadequacy of Bridgepoint's responses to information requirements, "the Department will not make any decisions regarding the addition of any new programs and locations until the reporting requirements are met."

In July 2016 Bridgepoint disclosed (https://www.sec.gov/Archives/edgar/data/1305323/000130532316000114/form8-kxitem801.htm) that the U.S. Justice Department had served Bridgepoint with a civil investigation demand aimed at determining whether the company misrepresented its revenue from private student loans and thus its compliance with the federal 90/10 rule, which requires for-profit colleges to get at least 10 percent of their revenue from sources other than the U.S. Department of Education.

Bridgepoint has also been under investigation (http://www.republicreport.org/2014/law-enforcement-for-profit-colleges/) in recent years by the Securities and Exchange Commission, the Consumer Financial Protection Bureau, and the attorneys general of California, North Carolina, New York, and Massachusetts.

Trouble with the VA

Most recently, the state of California rejected (https://www.chronicle.com/article/Ashford-U-Faces-New-Setback/242602) Ashford University's request to certify it for GI Bill eligibility, asserting that the school "failed to provide sufficient information and documentation necessary to resolve deficiencies" that the state had already identified in Ashford's application. The U.S. Department of Veterans Affairs requires that a college be approved by the veterans agency in its home state in order to get GI Bill money nationwide. Bridgepoint is based in California, but it used Iowa, where its old physical campus was, as the certifying state, and when Iowa acted to end that arrangement, Bridgepoint set up a storefront in Arizona (https://www.chronicle.com/article/Inside-the-Scramble-to-Save/241747) and claimed that more politically compliant state as Ashford's home. That maneuver, after it was exposed in the media, led the VA to tell Ashford that it would halt GI Bill funding unless Ashford actually moved its operation to Arizona or obtained approval in California.

Ashford filed a lawsuit in federal court to overturn the VA's decision. The VA has opposed the suit but in January backed off (https://www.militarytimes.com/education-transition/education/2018/01/10/with-state-approval-pending-ashford-gets-ok-to-keep-gi-bill-students/) its threat to stop the flow of Gi Bill money to the school, pending resolution of the lawsuit and the California state decision. Ashford had announced in November that it would voluntarily suspend new student enrollments using GI Bill money. But in late February, Bridgepoint CEO Clark told investors on a call that Ashford had ended this suspension (https://www.chronicle.com/article/Ashford-U-Faces-New-Setback/242602) and started taking GI Bill money again. Despite California's rejection of Bridgepoint, the VA has not indicated it will cut Bridgepoint off.

UPDATE 03-13-18 1:00 pm: There are even more ways that this deal could reduce Bridgepoint's accountability. The proposed merger between Bridgepoint's two schools — Ashford and Colorado-based University of the Rockies — could potentially solve Ashford's GI Bill problem, if the combined school could claim as its home Colorado, which might be more obliging than California. Headquartering in Colorado could also allow Ashford to get the benefits, as University of the Rockies already has, of the controversial National Council for State Authorization Reciprocity Agreements (http://National Council for State Authorization Reciprocity Agreements), which reduces regulatory obligations for schools operating online across state lines; Colorado is a member, while California is the only state that has refused to join (https://www.insidehighered.com/digital-learning/article/2018/02/28/california-holds-out-state-reciprocity-agreement-online). (Bridgepoint says its combined school will be a California non-profit. But it could change that.)

Bridgepoint has many friends in high places. Its DC lobbyists have included former senator, presidential candidate, and early-ish Trump supporter Bob Dole (https://www.republicreport.org/2016/bob-dole-lobbies-for-for-profit-college-facing-fraud-probes/). Bridgepoint is where Robert Eitel (https://www.politico.com/story/2017/08/31/devos-trump-forprofit-college-education-242193) worked as chief compliance officer before he joined the Department of Education (https://www.nytimes.com/2017/03/17/business/education-for-profit-robert-eitel.html) as senior advisor to DeVos and key player on higher education policy. Linda Rawles, an attorney chosen by the DeVos Department to serve on the ongoing panel crafting rules to govern student debt relief, also works for Bridgepoint (https://www.republicreport.org/2017/devos-department-stacks-negotiations-deck-profit-college-lawyers/).

If Betsy DeVos approves this latest trick by a company that has done so much harm to so many students, while reaping billions from federal grants and loans, it will be one more sign (https://www.huffingtonpost.com/entry/devos-embrace-of-predatory-for-profit-colleges-is-breathtaking_us_59b0705ee4b0d0c16bb529d0) that she has no concern for the welfare of students or the integrity of taxpayer money.