

GOVERNMENT

State Attorneys General Open New Investigations Into For-Profit Colleges

By *Eric Kelderman* | JANUARY 28, 2014

Several companies that own for-profit colleges have recently announced that they are under investigation by more than a dozen state attorneys general. But it's unclear whether those investigations will put off potential students or investors, and one analyst says a bigger concern for the companies is increasing scrutiny at the federal level.

In filings with the U.S. Securities and Exchange Commission, the Career Education Corporation, Corinthian Colleges Inc., the Education Management Corporation, and ITT Educational Services said they had received letters from a coalition of state prosecutors focusing on student-recruitment practices, employment statistics for the colleges' graduates, graduate certification and licensing results, and student-lending activities.

The companies all stated they had received subpoenas or civil investigative demands from the attorneys general of Arizona, Arkansas, Connecticut, Idaho, Iowa, Kentucky, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Tennessee, and Washington. Kentucky's attorney general is serving as the lead contact for ITT, and other states are coordinating with different companies.

A prepared statement from the office of the Connecticut attorney general, for example, said the state was "part of a multistate group that is seeking information and documents from certain for-profit colleges, including Career Education Corp., and is serving as the point of contact for that company's communications about the multistate group's inquiry."

Mark Spencer, director of corporate communications at Career Education, said the company intended to cooperate fully with investigators.

“Postsecondary institutions are heavily regulated by states, the federal government, and accreditors, with private-sector institutions receiving even more intense regulatory scrutiny. We accept that this is the environment in which we conduct our affairs and act accordingly,” Mr. Spencer wrote in an email to *The Chronicle*.

Other Challenges

The announcements may be a bit disturbing to investors in the short term, said Trace A. Urdan, a senior analyst who evaluates education companies for Wells Fargo. States have begun numerous investigations of for-profit colleges in recent years.

Kentucky’s attorney general has been particularly aggressive in taking on proprietary colleges, having begun investigations against at least four institutions and leading a multistate investigation that reached a \$2.5-million settlement against QuinStreet Inc., an online marketing company that recruits veterans and other students on behalf of mostly for-profit colleges.

With some exceptions, however, the investigations have failed to result in legal action, Mr. Urdan said.

Individual lawsuits have occasionally resulted in victories for students who felt wronged by the practices of for-profit colleges.

In June a jury awarded a Missouri woman more than \$13-million in a lawsuit against the for-profit Vatterott College. The former student had accused the institution of misleading her about what health-care degree program she was enrolled in. The decision is likely to be appealed because the punitive damages awarded far exceed the maximum allowed under state law.

Earlier in June an arbitrator in California awarded a student more than \$200,000, finding that the Le Cordon Bleu College of Culinary Arts and its parent company, Career Education, had committed fraud when it told her she would be able to earn \$75,000 as a pastry chef after completing an eight-month program, according to a news release from the law firm that represented the student and her family.

Despite those rulings, Mr. Urdan said the real challenges for proprietary colleges will continue to be the pressure from federal regulators and the competitive market for students, who are now more sensitive to the cost of their degrees and better able to get an online degree from traditional nonprofit institutions.

Clarification (1/28/2014, 4:11 p.m.): A source cited in this article originally suggested that the companies face criminal prosecution. The attorneys general are investigating the companies under state consumer-protection laws and so would file civil lawsuits, not criminal charges, against the companies. The article has been updated to reflect that.

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