



## **Transparency by ‘shorts’ on ‘for-profit’ schools needed, too**

By Lanny Davis - 06/23/10 07:25 PM ET

On May 26 a noted Wall Street short-seller, Steve Eisman, gave a speech criticizing certain public companies that are for-profit colleges and universities. Eisman is known for “shorting” stocks in public companies in the sub-prime industry before the collapse — meaning he made tons of money when these companies’ share values went down or virtually collapsed.

For the uninitiated, at the risk of oversimplifying, you make money “shorting” stock by borrowing someone’s stock at a certain share value and then, if the share values go down, repaying the loan at a lower amount, pocketing the difference.

Eisman, in his May 26 speech before the Ira Sohn Research Conference in New York City, criticized some for-profit colleges and universities that are public companies (such as the Apollo Group, which owns the University of Phoenix, Corinthian College and Kaplan University (owned by The Washington Post). He suggested they were on financially shaky ground due to high student default rates from Department of Education Title IV loans and excessive debt-to-income ratios, to name just a few of his criticisms.

Stories appeared shortly after the speech that the share values of the companies that Eisman had criticized dropped immediately and considerably — and that Eisman had “shorted” these stocks, and thus profited handsomely. Whether the share values fell as a result of Eisman’s criticisms is up to a logical reader — or inquiring member of Congress — to determine.

Eisman also penned an extensive op-ed in the New York Post. But he made no disclosures in that piece as to how much he had shorted in the companies he was criticizing and how much he had profited if and when the share values dropped.

Similarly, on Thursday morning, in front of the Senate Health, Education, Labor and Pensions (HELP) Committee, chaired by Sen. Tom Harkin (D-Iowa), Eisman is repeating similar charges. Yet he doesn’t make any specific disclosures that I can discern, at least from the written testimony I have read, as to what stocks he has shorted in the companies he has criticized in the past, and what his current short positions are and how much.

I’ve known Harkin for many years. He is one of the best senators ever. But he has always stood for transparency. I suspect he will demand such full disclosure and transparency this morning from Eisman.

Private-sector colleges are part of the mix of higher-education options available to lower-income kids, representing 2.7 million (about 7 percent) of the current students in higher education. Many of the students would qualify as non-traditional — working adults, low-income students and minorities — and can fairly be described as “higher risk” compared to students at traditional universities.

One report, using U.S. Department of Education data and issued by the Parthenon Group, said that students at two-year private-sector colleges graduate at rates approximately 50 percent higher than public schools. In addition, the graduation rate for four-year private-sector schools is virtually no different from traditional four-year schools — 43 percent compared to 45 percent, according to the Integrated Postsecondary Education Data System (IPEDS).

In a 2009 report, the National Governors Association (NGA) said this: “Private two-year colleges have much higher graduation rates than public two-year colleges, even though they enroll similar students.” The U.S. Department of Education’s National Center for Education Statistics (NCES) data corroborated the NGA’s study: “Four-year career colleges that are predominantly minority-serving exhibit a higher graduation rate than public and private institutions that also serve minority students (47 percent versus 33 percent and 40 percent, respectively).”

And what happens when private-sector colleges graduate their students? A review of the data shows that these students get a job and pay their debts. Default rates of for-profit students are basically the same as students from community colleges (11 percent versus 10 percent, respectively). While it’s true that for-profit students have higher default rates than public and nonprofit colleges, the GAO reported in 2009 that “the characteristics of the students who attend the schools” account for the differences in the loan defaults, not the kinds of institutions these students chose to attend. In other words, lower-income students have higher default rates than wealthier students, whether or not they attend for-profit or non-profit schools.

Duh.

Let’s concede that, in the for-profit college industry, there are bad apples. Congressional oversight and U.S. Department of Education rules give ample ability to focus on fraud, root it out and end it.

But the notion of pervasive, systemic abuse and fraud as suggested by Eisman, more with innuendo than hard facts, may not stand up to scrutiny.

We need oversight and regulation for sure. We also need full disclosure and transparency by short-seller critics — for sure too.

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