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FOR-PROFIT SCHOOLS: TRUMP DELAYS ENFORCING NEW RULES, LIFTING SHARES

Education Department delays 'gainful employment' rule to resolve industry concerns

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It isn't exactly 2006 again, but for-profit colleges are riding high on Wall Street.

Stocks in the industry, some left for dead five months ago, have climbed rapidly since November as investors cheer President Donald Trump's talk of easing regulations. Last week, for-profit schools got an inkling he might deliver on the promise when the Education Department announced it would delay enforcing rules drafted under the Obama administration.

Those rules, known as "gainful employment," threatened to shut down hundreds of for-profit campuses in the next two years due to high debt levels among former students.

Investors have taken note. Grand Canyon Education Inc. gained 2.7% last week and has rallied 38% since November. George Soros' fund added DeVry Education Group Inc. during the fourth quarter, filings with the Securities and Exchange Commission show. The stock has risen 41% since the election.

"These stocks have been on fire," said Jeff Silber, an analyst at BMO Capital Markets.

The Education Department said the delay would allow it to resolve industry concerns about the integrity of graduate-earnings data underpinning the regulations. But many investors interpreted it as a broader shift from former President Barack Obama's aggressive oversight.

Mr. Trump once owned a for-profit school, the now-defunct Trump University, while Education Secretary Betsy DeVos has championed private-sector options and said she wants to promote skills training in higher education.

"Our sector is ready to go," Steve Gunderson, head of the industry's main trade group, Career Education Colleges and Universities, said of its plans to lobby the Trump administration.

He said he recently met with top Education Department officials to push for the delay and to argue that the gainful employment regulations – which also apply to career-training programs in public and nonprofit schools – should cover all majors or be eliminated entirely.

The industry may also benefit from Mr. Trump's call to boost skilled trade workers in places like Michigan, Ohio and Kentucky. For-profit colleges have long focused on courses for mechanics, nurses, hair stylists and other trades. Ms. DeVos said during her Senate confirmation hearing in January she wanted to promote trade schools as an alternative to the traditional four-year college.

One of the biggest winners has been Universal Technical Institute Inc., which is based in Arizona and trains mechanics. The stock has more than doubled since November to \$3.46 on Friday.

The industry's gains mark a reversal after years of collapsing student enrollment and the prospects of more regulation and free public college under Hillary Clinton.

"You get the removal of that existential threat after the election. That's a big part of the rally," said Trace Urdan, an analyst at Credit Suisse Group AG.

The stocks boomed in the century's first decade as more Americans sought new skills and investors saw the government student-aid system as a spigot of revenue. Students spend federal loans and grants to cover school tuitions.

Since then, enrollment has fallen sharply. State and federal investigations into illegal advertising tactics led to campus closures. The strengthening labor market also prodded Americans to seek jobs rather than upgrade skills. Enrollment at for-profit colleges fell 26% between 2010 and 2014, faster than the 1% decline in undergraduate enrollment.

The industry's combined stock-market value peaked at \$35 billion in 2006 and approached that level in 2010, according to a Credit Suisse analysis. But the stocks then tumbled 80% up to last September. Even after recent gains, Universal Technical's market value is at about \$85 million.

The latest renaissance is again stoking fears among consumer advocates and Democrats. Federal data showed that students at for-profit schools accounted for a disproportionate share of the surge in student debt to \$1.3 trillion, as well as a sharp increase in defaults.

"The fear is that you'll get a very simplistic approach that says the private market is automatically good and you'll fail to properly regulate it," said Ben Miller of the Center for American Progress, a left-leaning think tank.

A spokesman for Education Secretary DeVos didn't respond to a request for comment. Ms. DeVos, responding to senators' questions, wrote that she would root out fraud and abuse across higher education. "What I do not want to do is discriminate against or be intolerant of an institution of higher education simply because of its tax status," she wrote.

Mr. Gunderson, a former Republican Congressman, acknowledges the industry grew at an unhealthy pace during the downturn, as schools accepted too many students who were unprepared for college-level work without providing enough resources to help them.

But he said President Trump's goal of achieving above-3% economic growth will ultimately require a big role from for-profit colleges. Many students at community colleges were placed on waiting lists for classes earlier this decade because schools had reached capacity. State funding for community colleges has failed to keep up with enrollment.

But investors say the sector still has challenges, and some are bearish enough to bet against the sector. Short interest in DeVry has tapered only slightly since the election, even as its stock soared, data from Markit show.