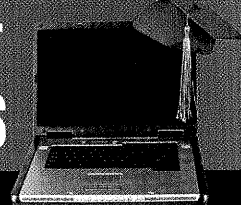


HOW CELLULAR PROVIDERS COMPARE

Special Investigative Report
THE TRUTH ABOUT ONLINE UNIVERSITIES



Consumers Digest

APRIL 2009



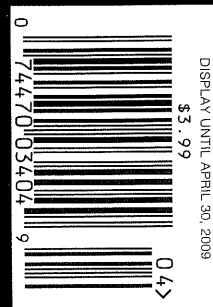
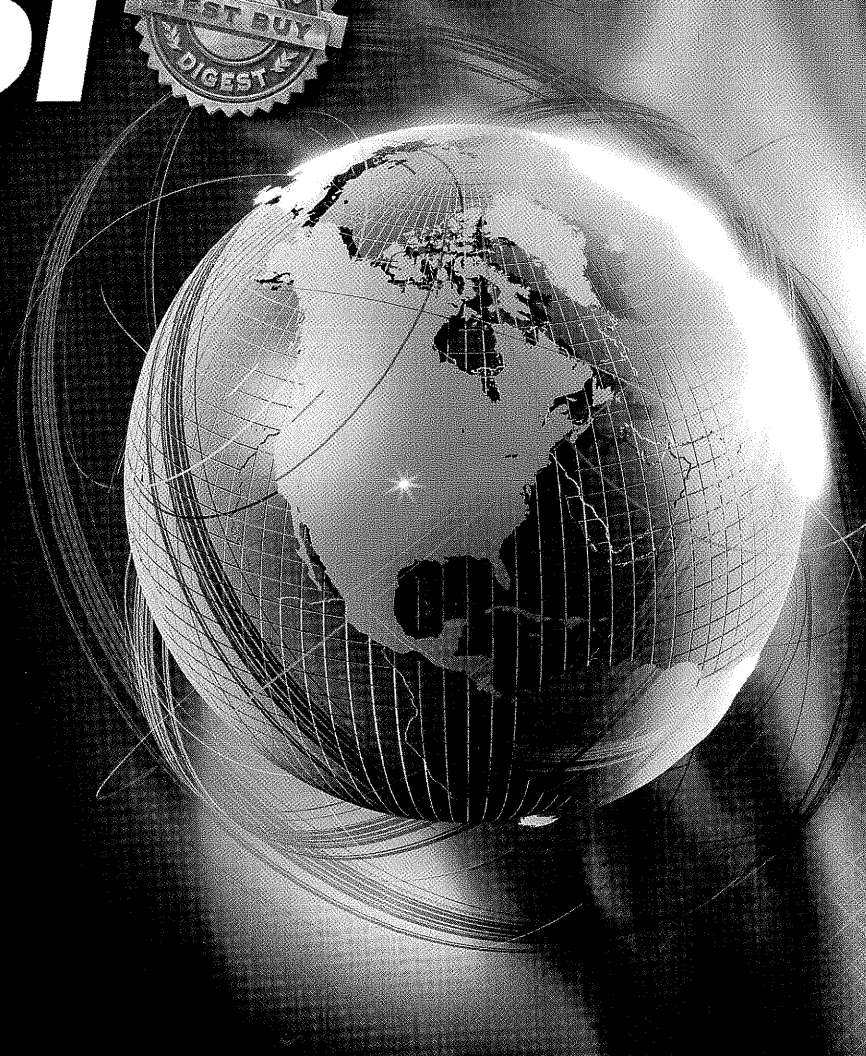
INSIDE AMERICA'S GREEN MACHINE

- Perception vs. Reality
- Greenwashing Gone Wild!
- Genuine Consumer Benefits
- Who Is Cashing In?

PLUS

- ★ Next-Generation Green Products
- ★ Beyond Cool—Today's Top-Shelf Refrigerators
- ★ Child-Tracking Devices: Real Hope or False Promises?

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DEGREES OF DIFFICULTY

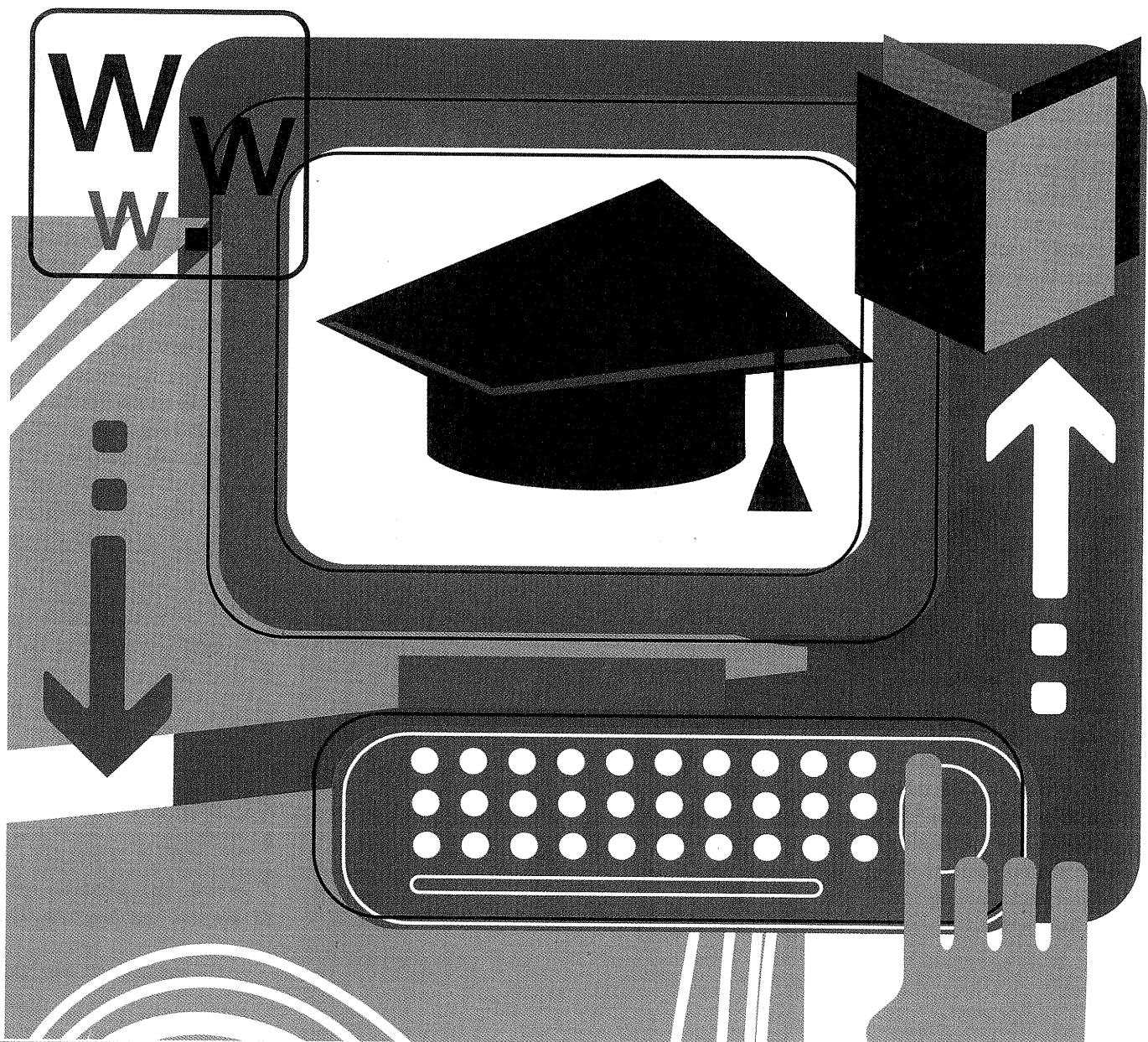
The Truth About Online Universities

Pursuing a degree from an online university is convenient, but our investigation uncovers issues that make us wonder how these for-profit schools really work. High-pressure sales tactics can mislead you into pursuing a degree you can't afford. And questionable teaching and grading methods can dilute the value of any degree.

By Catherine Elton

Bonnie Belden of Spokane, Wash., was making good money by cleaning apartments, but at age 56, she knew that she didn't have much of a future in it. Art was her real passion, and she thought that if she could work while she studied for an online bachelor's degree in graphic design, it would lead to a better paying career.

So, she contacted an admissions adviser from American InterContinental University (AIU) in November 2005. According to Belden, the admissions adviser told her that she would learn from top-notch professionals in the field; that the school would help her find a job with the companies with which they were well-connected; and that most everyone who attended found a good job upon graduation. Then the admissions adviser called her four times a day, for 2 weeks straight,



until she agreed to enroll in classes.

"She pushed and pushed and pushed," Belden says. "She made me feel like it was only an exclusive group of people that got into the school. I didn't know better. I was flattered [because] it made me feel special, but I got duped."

Belden's degree cost her \$43,000 (not the \$32,000 that she says she was quoted by the admissions adviser). She says her professors were often incompetent, or they were unresponsive to e-mails that requested consultation, and that she taught herself most of the material or depended on other classmates to explain it. She graduated at the top of her class with a 4.0 grade-point average and expected, as per the assurances of the admissions adviser, that she'd be able to find a job that would enable her to pay off her debts.

But she says her education left her completely unqualified to get a job in her field nearly a year after she graduated from AIU in June 2008. (AIU dodged our questions about unsatisfied former students.) Belden now makes \$38,000 a year as a property manager and has \$74,000 of college debt to pay off, including the interest on her loans.

Failing Grade. Belden's bad experience is far too common at for-profit online universities. At a time when the recession has motivated many people to increase their earning power, pursue a new career or get a degree, it's easy to see why someone would be sold on the convenience of an online degree. After all, you can take classes and earn the degree from home while you work or raise a family, and often in less time than at a traditional university.

But after interviewing 26 former employees and students from the biggest for-profit online universities, we discovered a disturbing pattern that gives the appearance that many of these schools are more interested in generating revenues for their parent companies than in providing a valuable education.

The stories that we heard from former students and former school employees who recruited students via telephone paint a picture of a numbers-driven

Online Outline

These nine for-profit schools have the largest online enrollments as of 2008. Students who take 80 percent or more of their classes via the Web are considered "online enrollments." Revenue figures are based on the most recent information from those schools and reflect figures from the 2008 fiscal year or 2007 calendar year. Title IV reflects the percentage of revenues derived from federal financial aid.

| School | Parent Company | Enrollment | Revenues | Title IV |
|---|--------------------------------|------------|----------------|------------|
| University of Phoenix (phoenix.edu) | Apollo Group | 270,000 | \$3.1 billion* | 77 percent |
| Kaplan University (kaplan.edu) | The Washington Post Co. | 40,000 | \$1 billion** | 73 percent |
| American Public University/ American Military University (apus.edu) | American Public Education Inc. | 35,900 | \$69 million | 11 percent |
| Walden University (waldenu.edu) | Laureate Education | 35,000 | \$1.4 billion* | NA |
| DeVry (devry.edu) | DeVry Inc. | 30,000 | \$1 billion | 65 percent |
| Strayer University (strayer.edu) | Strayer Education Inc. | 27,282 | \$318 million | 72 percent |
| Colorado Technical Institute (ctuonline.edu) | Career Education Corp. | 25,000 | \$1.7 billion* | 63 percent |
| Capella University (capella.edu) | Capella Education Co. | 24,063 | \$226 million | 74 percent |
| American InterContinental University (aiuonline.edu) | Career Education Corp. | 22,000 | \$1.7 billion* | 63 percent |

*Revenues for parent company **Revenues for all Kaplan Higher Education business

SOURCES: ANNUAL CORPORATE FINANCIAL REPORTS, BMO CAPITAL MARKETS RESEARCH GROUP, FORBES MAGAZINE

ven enrollment process right out of a telemarketing bible. Too often, the recruiters at these schools aggressively solicit unqualified students who are likely to fail or drop out. In other cases, even competent, qualified students are being pushed through programs, learning little and getting easy A's. In short, too many students at these schools are racking up significant college debt and finding themselves ill-prepared for gainful employment upon graduation.

It's difficult for us to say what value a degree from a for-profit online university delivers, because there are many students (and we interviewed some of them) who say they benefited from getting such a degree. What we can't say is whether those students would have been better off by paying less for the same degree at a community college or by paying similar amounts for the same degree at a traditional private or public 4-year school. (See "Online Pass/Fail," page 23.)

It's clear that recruiting policies vary at for-profit online schools and that the

educational approach differs among schools and their programs. But we cannot help but wonder whether the structure of for-profit online universities creates an environment that should make anyone who seeks an education pause before he/she considers a school that fits this model.

Officials from the schools we interviewed maintain that they provide an educational opportunity for those who might otherwise not get such a chance, because typically anyone with a high-school diploma (or GED) and as little as \$50 for an enrollment deposit can get into a for-profit online university. However, the average annual tuition at for-profit universities is \$11,556 for a 2-year program and \$14,132 for a 4-year program, according to a report by BMO Capital Markets Equity Research Group that is based on figures from the 2006 to 2007 school year—the most recent data that we could find. (See "A Cost Comparison," page 24.)

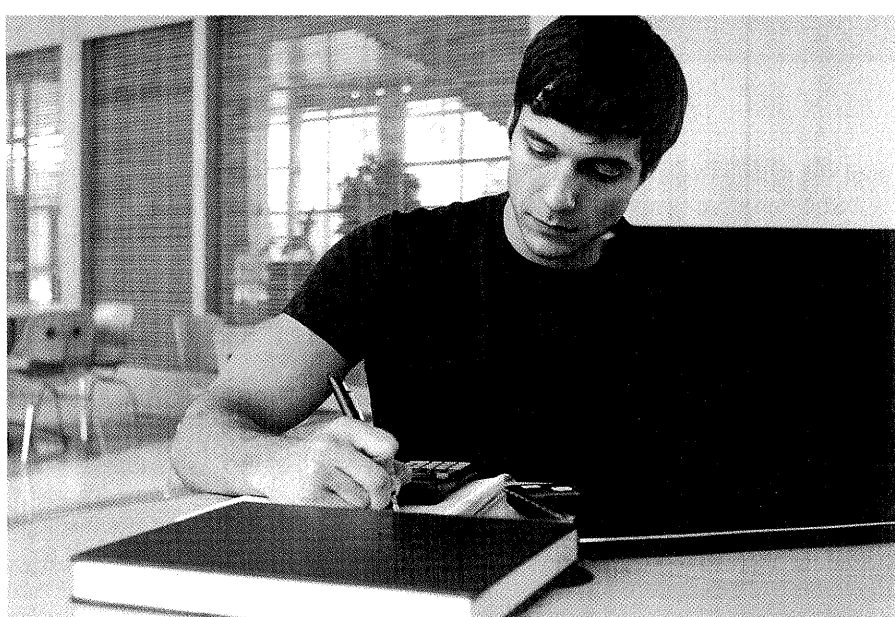
But we wouldn't blame anyone for

thinking that the open-enrollment policy at for-profit online universities is just another way for schools to justify a system that rakes in billions of dollars in financial aid from the federal government. That approach isn't fair to the students who might never make enough money to repay their loans, and it strikes us as a potential abuse by these schools of the federal tax dollars that we all pay.

Dialing for Dollars. For-profit online universities are big business. According to Richard Garrett, an analyst for the education consulting firm Eduventures, for-profit online schools represent a \$6.2 billion industry with some 620,000 U.S. students as of fall 2008. That represents 32 percent of all students attending online universities in the United States. According to Eduventures' estimates, online higher education (students taking 80 percent or more of their total instruction online) experienced a compound annual growth rate of 29 percent between 2002 and 2008, leaping from an estimated 426,000 students in 2002 to 1.9 million students in 2008.

Of the nine for-profit schools nationwide that have 22,000 or more full-time online students, eight of the schools are owned by publicly traded companies. Business is so good that one school, University of Phoenix, agreed in 2006 to pay \$154.5 million over the next 20 years for the naming rights to the stadium where the National Football League's Arizona Cardinals play.

Public universities and private non-profit universities rely largely on endowments and research funding to stay in business. On average, tuition at public and private nonprofit universities accounts for 16 percent and 30 percent, respectively, of total revenues, according to the BMO report. Conversely, tuition accounts for roughly 85 percent of total revenues at for-profit online universities, the BMO report says. That means that profits at these companies—and stock prices, in the case of those that are publicly traded on Wall Street—depend heavily on high enrollment numbers. The for-profit universities that offer online degrees have vast potential for enrollment that is unrestricted by the physical size of campuses. We have found that this combination makes for



rapacious recruiting. And when there's so much pressure to enroll students, it increases the likelihood that unprepared students will get duped into pursuing a degree that they can't afford.

At many of these for-profit online universities, the so-called admissions advisers, such as the one with whom Belden dealt, are merely salespeople, who not only know little about academia but, in many cases, have never even been to college themselves. What these *recruiters* have is a background in sales. They work in a giant call center, where some of them make hundreds of calls a day, to people whose contact information, in many cases, has been supplied by a service that provides sales leads. In this case, the "sales leads" were prospective students whom recruiters would, in some cases, simply cold call.

Former advisers from two of these for-profit schools told us that when they called a prospective student, they often were connected to someone who wasn't even thinking about going to college. But because that person merely had responded to a pop-up Web site ad (which offered a flat-panel television or a notebook computer if he/she answered some questions), their contact information was funneled to an online university that was eager for prospective students to recruit.

Former employees whom we interviewed from Kaplan University—owned by The Washington Post Co.—and AIU told us of giant wallboards or images of large thermometers that tracked applicants, enrollments and sales goals. At one AIU recruiting work site, employees would ring a bell each

time they secured an enrollment, according to former recruiter Paul French, who worked for AIU for just 2 months in 2004 before leaving to pursue another sales job. Former recruiters described to us a "sink or swim" and "boiler-room" environment in these sales organizations, where managers motivated recruiters by hollering at them, and recruiters were known to break down in tears under the pressure. Recruiters had daily goals for securing applicants, and their managers called daily meetings to press their staff to meet these goals.

So, why do these schools want to recruit so many students so quickly? When tuition represents such a large chunk of a school's revenues—roughly 85 percent, as we noted—it's clear that these for-profit universities won't make money unless they enroll students. And most of that money comes from the federal government in the form of Title IV financial aid. All but one of the nine largest online universities get at least 63 percent of their revenues from Title IV funding. For instance, nearly \$2.4 billion of the \$3.1 billion in revenues for Phoenix in fiscal year 2008 came from Title IV funding, according to the annual financial report of parent company Apollo Group.

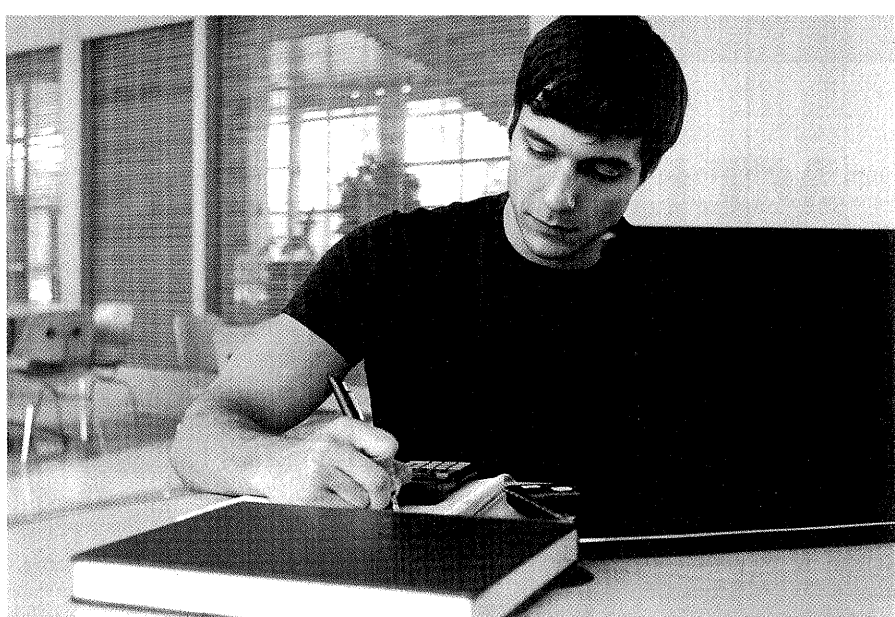
But there are strings attached. Federal law prohibits Title IV-eligible schools from offering bonuses or commissions to their recruiters as an incentive to enroll more students. Why? The federal government wants to discourage these schools from admitting unqualified students on federal dollars, which can create an abuse of the financial-aid system. The salaries

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of recruiters at for-profit universities that receive Title IV funds can be adjusted no more than twice a year and cannot be based solely on enrollment quotas, according to federal law.

Unfortunately, we found evidence that leaves the impression that some for-profit schools circumvent that very law. We interviewed former recruiters at three schools—AIU, Kaplan and Phoenix—who say their pay and job status were based on the number of students that they enrolled. In addition, former recruiters have filed whistleblower lawsuits against Kaplan and Phoenix regarding their recruiting practices.

In a lawsuit filed in April 2007, three former employees of Kaplan claim that to boost enrollments, recruiters were pressured by managers to enroll minority students and at-risk individuals who were known to be unqualified. The lawsuit alleges that the recruiters who enrolled the most students were rewarded with travel junkets.

A whistleblower lawsuit that was filed against Phoenix in 2003 alleged that the university based the pay for its recruiters solely on the number of students that each recruiter enrolled. The lawsuit also claimed that its executives bragged about skirting the federal law that bans incentive compensation.

When we interviewed officials at Kaplan and Phoenix about the pending lawsuits, both schools dismissed the whistleblowers as disgruntled former employees. They say the former employees are using opportunistic lawyers to pursue the only accusation—violation of the incentive compensation ban—that can enable them to seek potentially lucrative damages or settlements under federal whistleblower laws. We'd give that defense much more weight if we hadn't discovered similar complaints from other former employees at Kaplan and Phoenix who aren't involved in the lawsuits and other former employees from other for-profit universities that aren't the subject of similar lawsuits. In short, we're inclined to side with those who believe that the very structure of these for-profit universities creates incentives for bad recruiting practices.

Barmack Nassirian of American Association of Collegiate Registrars and Admissions Officers says the profits and stock prices for the corporations that own for-profit schools are themselves dependent upon enrollment numbers. "So, how can the directors of those corporations, who understand every additional student enrolled to be money in the bank, be reasonably expected to induce their employees to behave like Mother Teresa?" Nassirian says. "It would take studied ignorance not to see what is going on here."

Financial Framework. In 2003, Department of Education investigated recruiter compensation practices at Phoenix, the largest university in the nation with some 300,000 students, including more than 270,000 who are enrolled in the online school. (The rest attend classes at Phoenix satellite campuses around the country.) The report from the federal investigation came to some of the same conclusions that were alleged in the 2002 lawsuit: salaries of admissions officers were based on how many students they enrolled or, according to one former Phoenix recruiter who quoted company vernacular, putting "asses in classes." The report also alleges that management intentionally tried to deceive Department of Education about how salaries were calculated.

Phoenix settled the matter in September 2004 by agreeing to

Online Pass/Fail

Acquiring a degree from a for-profit online university isn't the best option for everyone. But there are some who should consider studying at these schools, according to David Breneman, former dean of Curry School of Education at University of Virginia and co-author of "Earnings from Learning: The Rise of For-Profit Universities." Based on Breneman's insight and our analysis, these tips can help you to decide.

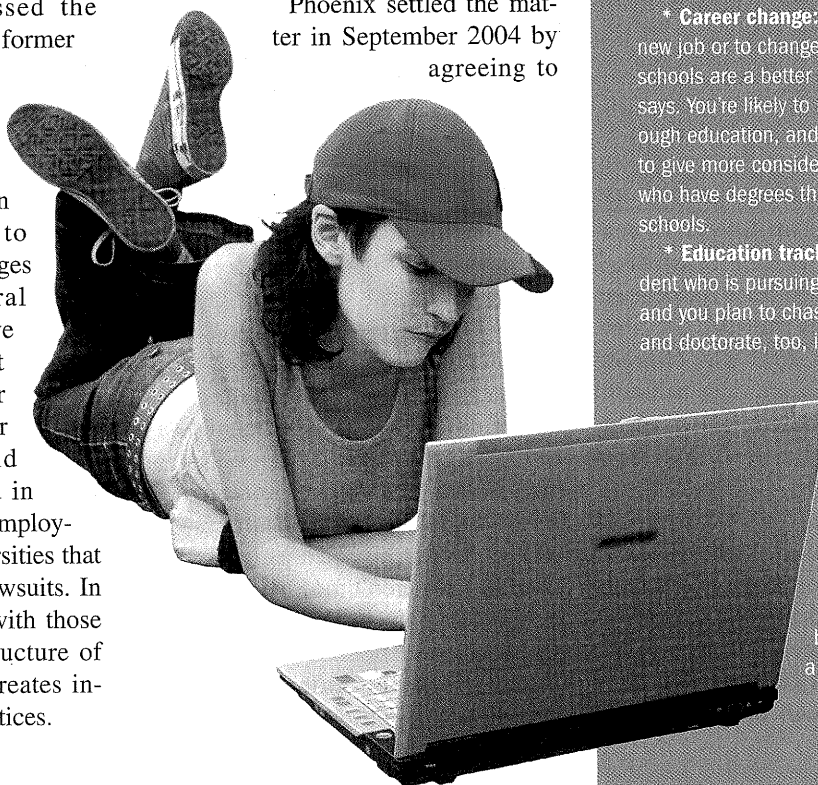
* **Limited time:** There's no question that the time commitment is much less for online degrees, because you can take classes from home. So, if you're too busy with an existing job or family responsibilities, online degrees can make a lot of sense. Breneman says you should scout the online options for traditional schools first. If you can't find what you're looking for at those schools, then it's worth checking into options at for-profit online schools.

* **Specialty studies:** Unlike traditional schools, for-profit online universities often don't require students to take extra general-studies courses that are unrelated to a specific focus. That can be a big incentive if you pursue vocational or technical degrees, or specialized degrees, such as one for teaching.

* **Salary boost:** If you want to keep working for the same company but need a master's degree to qualify for a promotion or pay increase, for-profit online schools are worth considering, because these degrees often satisfy a company's requirements.

* **Career change:** If you're looking for a new job or to change careers, traditional schools are a better option, Breneman says. You're likely to receive a more thorough education, and employers are likely to give more consideration to candidates who have degrees that are from traditional schools.

* **Education track:** If you're a new student who is pursuing a bachelor's degree, and you plan to chase a master's degree and doctorate, too, it's best to start at a traditional school, Breneman adds. Candidates for advanced degrees stand a better chance of getting into their favorite schools and programs if they earned a bachelor's degree from a traditional school.



pay Department of Education \$9.8 million. As part of the settlement, Phoenix didn't have to admit that it committed any of the allegations. The university says two independent audits that were taken since the settlement show that more than just enrollments are considered when salaries are determined. It also says a review by Arizona could not substantiate the claims that were made in the federal government's report. According to the university, the whistleblower lawsuit is slated for trial in March 2010.

But former recruiters tell a different story. Aaron Duhamel started working as a recruiter at a Phoenix admissions center in southern California in April 2006—19 months after the federal government report came out. He says he quit his job a year later because of his concerns about what he believed were unethical recruiting practices at Phoenix. Duhamel indicated that, after the settlement between Phoenix and the feds, the company was more careful about appearances, but the very charges made in the lawsuit and by the federal government—never really went away.

"In essence it [pay] came down to your [enrollment] numbers," Duhamel says. "If you are enrolling more people, you are paid more. If you don't hit a certain number of [enrollments] per month, they would decrease your pay."

But Kaplan and Phoenix aren't the only online universities to have their recruitment practices called into question. AIU—owned by publicly traded, for-profit education giant Career Education—was placed on probation for 2 years in 2005 by Southern Association of Colleges and Schools (SACS), a regional accreditor. AIU was charged with using high-pressure sales tactics to recruit students and with misrepresenting what the school offered, says Tom Benberg of SACS.

Patrycja Mulewska, an AIU recruiter at an Illinois location from mid-2006 until November 2008, tells us that AIU took several steps as a result of the probation to reduce the appearance of a high-pressure sales environment. AIU managers took down the large wall-

A Cost Comparison

These are the average annual tuition costs for a college education among public, private and for-profit universities in the 2006 to 2007 school year, according to a BMO Capital Markets Equity Research Group report.

| School | 2-Year Program | 4-Year Program |
|-----------------------|----------------|----------------|
| Public (In-state) | \$2,629 | \$5,498 |
| Public (Out-of-state) | \$5,737 | \$13,124 |
| Private | \$9,190 | \$18,143 |
| For-profit | \$11,556 | \$14,132 |

boards that kept track of applications, enrollments and goals. The school also ordered recruiters to stop referring to potential students as *leads* and told recruiters that they could call a potential student *only* three times in one day.

Nevertheless, Mulewska says, when she worked at AIU, recruiters had to, in effect, meet enrollment quotas to keep their jobs. Mulewska and another recruiter in the Illinois office, Thomas McKearn, tell us they were fired in November 2008 and November 2007, respectively, because they didn't meet the enrollment quotas that were established by AIU managers. "I was well-liked, [and] my boss said my work ethic was second to none," McKearn says. "But I couldn't make the [required enrollment] numbers." AIU would not answer our questions about enrollment quotas.

Two former Kaplan admissions officers whom we interviewed who worked at separate locations in Florida and who were both fired encountered a similar experience to McKearn's. They say Kaplan management was careful to say their salaries were being evaluated on qualitative factors, such as professionalism and the quality of phone interviews. But, in reality, they say, pay raises were based on how many students a recruiter could enroll. In short, they say, the more students that a recruiter enrolled, the more pay a recruiter got—regardless of professionalism or telephone skills.

But it was a different story for those who didn't hit enrollment goals, says former Kaplan recruiter Douglas Jorgenson. "Of course it was quota-based," Jorgenson says. "There was this manager who told us his job was on the line, because we weren't meeting his [enrollment] goal. You could hear the desperation in his voice."

In separate interviews with Consumers Digest, officials at Kaplan and

Phoenix deny that salaries solely are based on enrollment numbers and insist that their schools are compliant with federal regulations. They also point out that a recruiter's job is to recruit, so it's logical to use enrollment numbers as one measure of a recruiter's success.

But we think that consumers have a reason to be concerned. If someone's job is on the line, because he/she doesn't reach enrollment goals, then how can any school claim that salaries are anything other than one big enrollment commission?

We wanted to interview people at Department of Education about allegations of enrollment-based pay for recruiters at for-profit online universities that receive Title IV funds. But no one at the agency would answer our questions. That's too bad. We want to know what the agency is doing to curtail the potential for quota-based recruiter pay and why the federal government would allow online universities that are owned by for-profit companies to gather so much of their revenues from federal financial aid. (After all, that's your tax money being put to use.)

Search for Students. Of course, a recruiter whose job (or pay) depends upon enrolling as many students as possible likely doesn't have your best interests in mind when he/she calls. So, there's a good chance that you won't get an honest assessment of whether a university or a particular program of study is right for you. And when that happens, you can get in trouble.

For example, Mulewska says AIU sought to have potential students apply for enrollment by 5 p.m. the same day that recruiters first talked to them. The idea, of course, was to hook students before they had time to reconsider the decision. At Kaplan, which had rolling start dates for new students every 2 weeks, there was enormous pressure to get students enrolled and started at the next start date, two former Kaplan recruiters say. The two recruiters say students were enrolled so fast that they were never told how many of their pre-

(Continued on page 71)

ONLINE UNIVERSITIES

(Continued from page 24)

vious college credits would transfer until they were already enrolled. Invariably, the recruiters say, fewer credits were transferred than what prospective students were led to believe.

For students who enrolled, it meant that they then were required to take more classes and pay more money than they had planned. That's why it is so important for you not to enroll in a university until you have submitted an official transcript from any previous schools and have received an audit of that transcript that indicates, in writing, how many credits will transfer to the new school. So, if a recruiter tells you that all of your credits will transfer, tell the recruiter that you won't enroll until you get a copy of the formal audit.

Why make this distinction between an *unofficial* and *official* or *certified* transcript, even though each contains the same information? Because James Barnes, a former AIU student, says he got an estimate from AIU of how many credits would transfer off of an unofficial transcript at the time he applied, only to find out that none of his credits transferred after he enrolled and after the official transcript—with the same information on it—was evaluated by AIU. Barnes says AIU never gave him a good explanation as to why the credits didn't transfer.

But verifying how many previous college credits will transfer is just one hurdle that students who are considering enrollment at a for-profit online schools can face. Victoria Boraggina of Toledo, Ohio, says a recruiter from publicly traded Capella University "hounded" her to apply for one of its doctoral programs in psychology and claimed numerous times that the program was on the verge of getting American Psychological Association (APA) accreditation. Unfortunately for Boraggina, she believed the recruiter.

She quit her job and enrolled in January 2004. In June 2007 the program still didn't have the promised APA accreditation. So, when she approached local clinics to complete her required field work, she learned that the clinical sites near her wouldn't accept her, because she was a degree candidate in a

non-APA accredited program.

She says Capella offered to help place her at a site that would receive Capella students but that the placement could be anywhere in the country. She says the reason she went to Capella in

for repaying financial aid or loans meant for classes that he/she never took.

That's why it is so important that you find out when the official drop date is at a university. Unfortunately, that often means finding and reading the

"The point at many of these schools is to get students in and signed up as fast as possible before they have much chance to consider their decision." —Stephen Burd, New America Foundation

the first place was because she owns a home, has a family and couldn't move anywhere else to study. She withdrew from the program in June 2007 and is unable to pay the \$65,000 she owes in student loans.

Michael Offerman of Capella denies the charges, saying no recruiter ever would tell a student that the school was on the verge of accreditation. But according to APA, Capella applied for one of its doctorate-level programs in clinical psychology in January 2006 but withdrew in May of the same year. So, it's clear that the school took initial steps toward APA accreditation.

"The point at many of these schools is to get students in and signed up as fast as possible before they have much chance to consider their decision," says Stephen Burd, a higher education expert for public policy think tank New America Foundation. "This often means rushing students through the financial-aid process. Students often don't understand what they have gotten themselves into until they have to start paying the loans back."

If getting in is fast and easy, getting out often is not. Former students from Capella and Kaplan whom we interviewed say the schools still were getting federal financial aid based on their respective enrollments even *after* they withdrew from classes. In 2008, an audit of Capella by Department of Education charged the university with failing to return to the government more than \$500,000 in Title IV funding for students who no longer were attending classes. So, what does that mean? If a school keeps tapping a federal or private loan even after an unsatisfied student withdraws from the school, the student still can be held financially responsible

small print in the student manual. And it also means taking an eagle eye to financial documents from the school and the banks that are administering the loans to make sure that there are no disbursements of funds *after* you withdraw from class.

Learning Curve. But even those who stayed in class at for-profit online universities have nightmare stories to tell. Former Kaplan student Angelique Welch of Wilcox, Ariz., says she became suspicious of grading methods after she got many perfect scores on assignments in a class she was taking as part of her pursuit of a degree in—believe it or not—fraud investigation. So, when she intentionally didn't use any references in one of her papers (which was required for each assignment), and she still got a perfect score, she knew her grades were a joke. Welch withdrew from Kaplan in May 2008—10 months after she started taking classes—because she realized that the cost was going to be more than Kaplan led her to believe (and more than she could afford). She now owes \$10,000 in student loans but can't find a job, in part, because of a physical disability she had well before she enrolled at Kaplan.

"I would have been a lot better off if we had taken a loan out and gone on a cruise instead, or bought a Jacuzzi," Welch says. "At least then I would have something to show for the last two years."

None of this surprises former Kaplan professor Carlos Diaz. Diaz worked for Kaplan from April 2005 until August 2006. He says he was fired for refusing to inflate his students' grades. In short, Diaz believes that "the professors who were there the longest were the ones

who inflated grades the most.”

Kaplan denies this allegation and says Diaz has a history of trying to profit as a whistleblower. Indeed, when Diaz worked previously at another for-profit university, Decker College, he was among the whistleblowers whose allegations led to federal and state investigations that eventually forced the school to file for bankruptcy and shut down in 2005.

But in the end, the real lesson about for-profit online universities is about how they affect your pocketbook. All of the students whom we interviewed who told us they were ill-prepared to find jobs in their fields after attending a for-profit online university still have college loans to repay. Unfortunately, there's really no way out of that debt. Jorgenson says he once heard a recruiter who was seated near him tell an applicant that he/she could file for bankruptcy to get out of his/her student loan. But that's not true. It is nearly impossible to discharge federal student aid and private student loans by declaring bankruptcy. In fact, the federal government can collect unpaid student loans from income-tax returns or even from social security payments.

We think that it's outrageous for any recruiter to mislead a prospective student in that way. Make no mistake: We aren't saying for-profit online universities explicitly tell their recruiters to mislead you. In fact, we know that many schools have compliance programs in place and that some of them monitor recruiters' phone conversations.

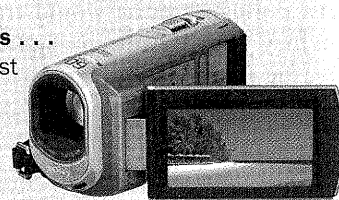
However, when the pressure to make profits creates a pressure for recruiters to enroll as many students as possible, it creates an atmosphere where an “anything-goes” approach by individual recruiters is—at the very least—easy to overlook by the schools themselves. And sadly, it's one of many troubling elements in the for-profit online university structure that should make you study the school in question before you sign up for its brand of education. ■

Freelance writer Catherine Elton has been a journalist for 14 years. She has written stories for The New York Times, The Washington Post, Boston Globe and Christian Science Monitor.

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