Late to the Fight Against Predator Schools

By The Editorial Board

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The federal government’s failure over decades to regulate for-profit colleges freed the schools to prey on veterans, minorities and the poor by saddling students with crushing debt and giving them worthless degrees in return. This is all the more outrageous because the schools rely on the federal student aid system for virtually all of their revenue.

The Obama administration has taken steps to get these schools off the federal dole. But regulators need to intervene decisively — and as soon as possible — when evidence of fraudulent conduct emerges. They must also reach out to students who are entitled to have their loans forgiven when a school defrauds them or shuts down while they are enrolled.

Just this week, ITT Technical Institute — one of the nation’s largest for-profit operations — announced it was closing, leaving about 35,000 students in the lurch.

ITT blamed the Education Department, which recently barred it from enrolling students using federal funds, citing its accreditation problems and financial instability. The department also demanded that ITT come up with more than $150 million to cover refunds in case it closed. According to the department, ITT could not do so.

The school has only itself and its business model to blame. In 2011, Senate hearings showed that ITT recruiters were deliberately targeting desperate unemployed people for some of the most expensive programs in the for-profit sector and that many students were taking on high-cost private debt after exhausting federal aid. It also emerged that the company was spending more on marketing than on instruction — a giveaway of what the game was about.

ITT’s reputation got worse every time it came under investigation or was hauled into court. In 2014, the federal Consumer Financial Protection Board sued it for pushing students into high-cost private loans that were likely to end up in default. A year later, the Securities and Exchange Commission accused it of fraud and charged it with concealing financial information from investors.

Complaints have also arisen at the state level. This year, Massachusetts charged ITT with falsifying job-placement rates for one of its programs. The death knell finally sounded for ITT this spring when the organization that accredits independent colleges and schools told it that it did not comply with accreditation criteria that were not rigorous to begin with.

The Education Department is at fault for waiting so long to end ITT’s use of federal aid. Now it needs to adopt and vigorously enforce recently proposed rules that shield the taxpayers from loss when a school is forced to close.

The most important rule would require schools that show signs of financial instability — like being sued by federal entities or state attorneys general or failing to meet requirements for receiving federal aid — to put aside money for debt relief for students hurt by the school’s conduct. The companies and their supporters in Congress want the rule rolled back. But the only way to hold schools accountable is to make the cost of abuse high.