A Conveyor Belt of Dropouts and Debt at For-Profit Colleges

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As college attendance has risen and investment in public institutions has flagged, the United States has relied increasingly on for-profit colleges, with disastrous consequences for many students.

For-profits, once a tiny corner of higher education, have turned into an important force. In 1995, just 500,000 people attended for-profit schools, a small slice of the 15 million enrolled in all colleges. But by 2010, for-profit enrollment jumped to 2.4 million students and its share more than tripled to 11 percent of all college students from 3 percent.

For-profit enrollment surged during the weak job market of the last recession, when college was a particularly appealing alternative. Increases in the generosity of the federal Pell Grant and education tax credits helped drive demand, but public colleges were unable to absorb the flood of students. Because their tuition prices do not cover the cost of education, these public schools rely on state funding to defray expenses. Yet state tax revenues plunged and states cut funding, just as millions of additional students were trying to enroll.

Students turned to for-profit colleges, which were happy to take their financial aid dollars. Growth rates in the for-profit industry were staggering, with enrollment jumping 21.5 percent from 2007 to 2008 alone, compared with growth of less than 4 percent for public and private nonprofit colleges. For-profit enrollment peaked at 2.4 million students in 2010 and remains above prerecession levels. While for-profits were traditionally a sidebar in discussions of college policy, they are now central to the narrative.

With growth has come considerable pain. Graduation rates at for-profits are extremely low. Further, their students borrow heavily and default at high rates. During the recession, for-profit borrowers accounted for nearly half of all student loan defaults.

Recent research shows that students at for-profit colleges, many of whom are workers in their 20s or 30s, leave school with lower earnings than they had when they started. And these results are not driven by a few outliers: As a whole, for-profits substantially underperform other colleges.

As for-profit schools are quick to point out, they enroll a disproportionate share of disadvantaged students, who are more likely to drop out and default on their loans. But research shows that these schools perform even worse than we would expect, given the characteristics of their students.

It's extremely difficult for students to assess a school's effect on their skills and knowledge, since the true value of education may be evident only over a lifetime. In this sense, education resembles health care, where consumers largely have to trust that they are receiving high-quality services. A school driven by its bottom line can skimp on instruction without students knowing they are being shortchanged.

Strong regulation and oversight are important in these settings. In the hospital industry, there are at least clear standards that all institutions, including for-profits, must follow. Regulation and oversight of colleges is far weaker than this.

Public colleges, which are governed by states and elected boards, provide the cornerstone of postsecondary education in the United States. The federal government has trodden lightly in this decentralized universe, providing funding for students but for the most part staying out of governance and regulation. This hands-off approach has left open the door to fraud, abuse and poor performance in the for-profit industry.

There is a long history of scandal in for-profit schools. After World War II, many veterans complained that for-profits happily took their G.I. benefits without providing a quality education. What has changed is the scale of the problem. When there were only a few hundred thousand students at for-profits, their troubles were muted in larger debates around higher education. With millions enrolled in for-profits today, students' concerns are front and center.

What's more, students are increasingly responsible for the cost of their educations. When the federal government pays for a substandard education directly, it's a waste of public money, but the risks are spread across millions of taxpayers. When individual students take out loans to pay for that education, they take on much of the risk themselves and overwhelmingly bear the consequences. Millions of students have left for-profit colleges with few skills but major debts, their financial lives ruined.

What's the solution? There are a few straightforward fixes, and many more difficult ones.

Congress should revisit the 90-10 rule, a provision of the Higher Education Act that mandates that colleges earn no more than 90 percent of their revenue from federal student aid. The idea is that at least some students demonstrate with their own money that they consider a school's education to be worth paying for.

For-profit colleges have creatively eluded the 90-10 rule. They aggressively recruit veterans, whose education benefits from the federal Department of Veterans Affairs do not count as student aid under the 90-10 rule. Congress should close this loophole.

And the 90-10 rule should apply not just to revenue but to enrollments. The rule has little bite if 100 percent of a college's students have 90 percent of their costs covered by government funds. A more effective test would be that at least 10 percent of students pay out of pocket, demonstrating with their dollars their confidence in the quality of the education they are buying. Fifteen percent would be even better — 85-15 was the formulation when the rule was established in 1992.

Fixing the broken accreditation system is also critical. To receive federal aid, a school must be inspected and deemed to meet a set of minimal requirements. But the accreditors are themselves lightly regulated and have not served as aggressive gatekeepers.

In an encouraging development, the Education Department last month voted to revoke recognition of the main accreditor of for-profit colleges, the Accrediting Council for Independent Colleges and Schools. The council repeatedly gave its stamp of approval to schools accused by federal agencies of fraud and mismanagement, including the Corinthian and ITT for-profit chains. The council is appealing that decision.

The risk now is that another weak watchdog will rise up to replace the accreditor, and nothing will change. The next presidential administration needs to keep up intensified oversight of for-profit colleges, enforcing the laws that are already in place to protect students. But congressional action is also needed, to create a tighter regulatory framework that prevents further abuses.

Correction: November 6, 2016

An article last Sunday about the broken system of for-profit colleges described a recent action of the Education Department incorrectly. The department voted to revoke recognition of the main accreditor of for-profit colleges, the Accrediting Council for Independent Colleges and Schools, but the action is not final pending an appeal. The council is still recognized in the interim.

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