SSN SCHOLARS STRATEGY NETWORK

BASIC FACTS

WHY AMERICA NEEDS TO REGULATE CAREER PROGRAMS THAT BURDEN TAXPAYERS AND BREAK PROMISES TO STUDENTS

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To most Americans, a college degree or certificate seems like a sure ticket to assured employment and higher earnings over the course of a lifetime. The promise of better careers has spurred millions to enroll in post-high school programs of many kinds. But all too often these programs fail to deliver the skills and career opportunities they promise – while shifting costs to the taxpayers and leaving former students with diminished futures and high levels of debt.

Low-income young people, unskilled adult workers, and military veterans are often the ones whose dreams are exploited by ineffective and sometimes downright unscrupulous career schools or college-based programs. In all too many cases, programs – many of them unaccredited – collect payments from students who have borrowed from banks or government programs and then fail to deliver what they promise. Ineffectual programs fail to equip students with the knowledge, skills and certifications they really need to get access to good employment in expanding careers – but leave former students paying of the loans they took to enroll.

The scope of such problems is growing, and public authorities are stepping in with new laws and regulations to curtail abuses and protect students and their families. Yet questions remain about the adequacy of these measures and their long-term consequences for higher education.

Student Loans and For-Profit Institutions

In a recent study, the U.S. Department of Education reported that students at for-profit institutions represent twelve percent of all higher education students – yet carry 26 percent of student loans and account for almost half (46 percent) of the loan dollars that end up in default. Students studying for associate degrees at for-profit institutions typically carry $14,000 worth of loan debt. In contrast, the majority of students at community colleges do not borrow.

Students at for-profit institutions are not the only ones who need loans. The schools themselves arguably have an even greater stake in taxpayer-financed aid. Remarkably, more than a quarter of for-profit institutions receive at least 80 percent of their revenues from Federal student aid.

Taking the Money, but Not Delivering Opportunity

Recently, researchers at the National Bureau of Economic Research tracked graduation rates, federal loan repayments, and employment outcomes for students who attend for-profit colleges, compared to students of similar backgrounds who attend traditional institutions. The results showed that for-profit colleges perform poorly:

- Twenty-six percent of students who borrowed between $5,000 and $10,000 to study at for-profit colleges ended up defaulting on their loans, compared to ten percent of students who borrowed comparable amounts to study at community colleges and seven percent who borrowed to attend four-year schools. For students who borrowed between ten and twenty thousand, 16 percent of for-profit students defaulted, compared to three percent of community college students and two percent of four-year college students.

- A sample of the student who enrolled at for-profit colleges in 2004 were making, on average, $1,800 to $2,000 less annually than students who attended other types of institutions. And six years after entering college, for-profit students were also more likely to be unemployed.

What Government is Trying to Do

In response to rising levels of student loan defaults, the U.S Department of Education developed "gainful employment" regulations that require that most for-profit programs (as well as certificate programs at nonprofit and public institutions) to prepare students for gainful employment in a recognized occupation. If career college programs fail to "better prepare students for gainful employment," they risk losing access to federal student aid. The debate about these accountability rules was long and contentious – and in the end it was agreed to implement them over a four-year period beginning July 1 2012.

How can we tell if programs lead to gainful employment? According to the new regulations, each program has to meet at least one of the following three metrics:

- At least 35 percent of former students are repaying their loans (defined generously as reducing the loan balance by at least $1);

- For a typical graduate of the program, the estimated annual loan payment does not exceed 30 percent of his or her discretionary income; or

- The estimated annual loan payment of a typical graduate does not exceed 12 percent of his or her total earnings.

The first round of data covers career training programs at public, for-profit, and non-profit schools. Measurements released by the Department of Education in June, 2012, *showed that five percent of the programs – all located at for-profit colleges – failed to meet any of the three key metrics* of the gainful employment regulation. If they cannot improve their performance, these programs could lose access to federal student aid. While the regulations apply to occupational training programs at all types of institutions, the initial Department of Education analysis concluded that "for-profit programs are most likely to leave their students with unaffordable debts and poor employment prospects."

More May Need to be Done

Although the new regulations may be a good first step, advocates for the low-income young people, military veterans, and unemployed workers who are often the targets of special recruitment drives by for-profit colleges believe that the regulations may be too loose to ensure accountability. In a political environment where powerful forces push against any government regulation of profit-making ventures, it will not be easy to tighten the rules or enact new ones. But all citizens should want vigilant efforts to ensure that student-aid tax dollars are well spent to support the hopes and ambitions of young people and adults striving to improve their careers and life prospects.