What comes after for-profit colleges' 'Lehman moment'? Possibly an education crash

By Rana Foroohar

JUST AS THE FALL OF LEHMAN BROTHERS IN 2008 HERALDED a much larger economic crash, the September shuttering of the ITT Technical Institute chain of for-profit colleges signals a broad crisis in higher education. ITT, which taught electronics, computer-based design, criminal justice and other careers to 45,000 Americans last year, had collected $5 billion in federal aid since 2010. Last month, citing failures of financial responsibility and federal fraud charges, the Department of Education tightened its oversight of ITT by requiring the school to boost its cash reserves. That ultimately led to its shuttering.

For-profit schools are facing a reckoning after years of meteoric growth. Headline-making cases at these schools abound, including the continuing scandal around Trump University and allegations that Donald Trump paid off Florida's attorney general to nix an investigation into possible fraud. The Washington *Post* revealed this month that Bill Clinton took home $17.6 million to serve as a consultant and "honorary chancellor" of the for-profit college company Laureate International Universities. There are big differences between ITT, Trump U and Laureate, but all underscore the tendrilous nature of the for-profit boom. Since 2000, overall educational outcomes have fallen while debt and student defaults have risen. And for-profits have become ground zero for the student-debt crisis, representing roughly 75% of the increase in student defaults.

THE $1.2 TRILLION STUDENT-DEBT bubble represents a much smaller part of the consumer-credit market than housing did on the eve of the 2008 financial crisis. And unlike the bad real estate loans that blew up back then, federal student loans aren't typically securitized (though there are some student loan asset-backed securities out there), which limits their ability to trigger a domino effect in the market if borrowers can't pay.

And yet the financial crisis and the student-debt crisis are quite similar. As was the case in subprime real estate, the for-profit education market is opaque: there are no clear (let alone complete) national figures on exactly who's holding all the debt. Borrowers—this time students and their parents—lack an understanding of terms. Thanks to complex and ever shifting aid deals, only a quarter of first-year college students can predict their own debt loads within 10% accuracy. Conflicts of interest are rife because of a revolving door between the Department of Education and both the nonprofit and for-profit education sectors. Meanwhile, higher education has aggressively lobbied, just as financial institutions have, to keep the status quo.

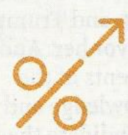
Just as in 2008, it's the economically vulnerable who suffer most now. While it's true that a degree ensures something more than a $15-an-hour future for most graduates, it's no longer a ticket to higher social mobility for the poorest Americans. Many end up in second- or third-tier colleges, going into debt for dubious degrees. As academic A.J. Angulo lays out in his recent history of the for-profit sector, *Diploma Mills,* these schools all too often view students as "annuities" who, via their Pell Grants and loans, can provide a fat and regular profit.

The result is that students get the shaft. In 2009, for example, for-profits spent 17% of their budgets on instruction and 42% on marketing or investor payouts. According to *Ad Age,* that year Apollo Education Group, the parent company of the for-profit University of Phoenix, spent more on advertising than Apple.

FOR-PROFITS ARE STILL a small part of the overall education sector. But from 2010 to 2012 they took more than a quarter of federal aid subsidies and represented nearly half of all defaults. They are also the most troubling part of rising student debt, falling state subsidies for public universities and poor educational outcomes. Organisation for Economic Co-operation and Development figures put the U.S. third from the bottom among developed nations in gains in education attainment beyond high school. All of which has major consequences for economic growth as jobless, indebted kids move back in with parents, depressing consumption in an economy that depends on it.

In ITT's case, the government may write off loans for current students. Though aimed this time at the right people, this new bailout could end up costing taxpayers $500 million, according to private student lender Sallie Mae. A real fix will require finding ways to take the money we've been pouring into for-profit schools and use it instead to refashion community college into something like the new high school: free and high quality. ◻

LEVERAGED LEARNING



76%
Increase in how much community colleges spent on debt interest annually from 2003 to 2012; the increase for state colleges was 45%

31%
Rise in the cost of going to community college over the past 10 years; the cost increased 40% at state colleges

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