Boom in for-profit colleges may be a bust for taxpayers

Students borrow more, default more, report says

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WASHINGTON — For-profit colleges are booming as the unemployed turn to education, but some members of Congress and the Obama administration say they are growing at the expense of taxpayers and students.

The average profit among such publicly traded higher-education companies soared to $229 million in 2009, up from $150 million the year before, with the majority of their revenue coming from federal student aid. For example, federal dollars accounted for 86 percent of revenue at the University of Phoenix, which has more than 458,000 students.

But according to a recent report issued by the Senate Committee on Health, Education, Labor and Pensions, the public's money is often not well spent on the schools. The colleges cater to low-income and minority students often working online with little supervision, yet they charge on average twice as much as public universities charge in-state students.

Investigators believe a high proportion of students drop out, and those who do graduate find their money wasted because their programs are not accredited. Students at for-profit colleges borrow more and are more likely to default on their loans, furthering taxpayer losses. According to the Chronicle of Higher Education, 30 percent of students who borrowed from the federal government to attend four-year for-profit institutions have defaulted since 1995. Roughly 15 percent of students at public four-year colleges and 13.6 percent at private nonprofit four-year colleges have defaulted since then, the Chronicle reported.

The Department of Education last month moved to rein in some for-profit firms with a proposal that would cut off federal student aid to individual programs within colleges that have a high proportion of students who cannot repay their loans after leaving.

"Some proprietary schools have profited and prospered, but their students haven't," Education Secretary Arne Duncan said. "These schools — and their investors — benefit from billions of dollars in subsidies from taxpayers, and in return taxpayers have a right to know that these programs are providing solid preparation for a job."

The proposed regulation, less stringent than originally expected, could put out of business 5 percent of for-profit programs, a number that critics of the colleges said was not high enough.

"At first glance, the regulation appears to set a low bar," Sen. Tom Harkin, D-Iowa, chairman of the Senate panel that issued the report, said in a statement in late July. "I will be looking closely at this rule to ensure that it goes far enough to protect the $23 billion in federal aid to for-profit schools each year."

But Harris Miller, president of the Career College Association, which represents for-profit schools, said the schools have a special challenge.

"We have millions of students who are not even in the educational system who have been told, 'You're not college material,' " he said. "Somebody has to reach out to those people."

Corinthian Colleges spokesman Kent Jenkins said the disproportionate default rate was a consequence of the large number of low-income students in the programs. Reaching low-income students requires high advertising budgets, he added. The Senate panel report noted that the schools devote about a third of their budgets to advertising.

The report acknowledges that President Barack Obama's goal of doubling the number of U.S. college graduates by 2020 may hinge on for-profit colleges, which are able to expand faster than public colleges and universities.

Stephen Burd, an education policy expert at the New America Foundation, said the scrutiny is long overdue, but lawmakers will have to contend with the industry's "Teflon lobby."

"For-profit college lobbyists are accustomed to flexing their muscles on Capitol Hill and getting their way — no matter how much controversy is swirling around their schools," he said.

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