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Trade Schools Have to Find Grads Jobs, or Lose Financial Aid

By THE ASSOCIATED PRESS JULY 1, 2015, 3:25 A.M. E.D.T.

WASHINGTON — Exotic dancers hired as admissions counselors. Recruiters told to seek out "impatient" individuals who have "few people in their lives who care about them." Military personnel still recovering from brain damage told to sign on the dotted line.

In the two decades since trade schools started popping up on U.S. stock exchanges to maximize profits, allegations of misconduct have been rampant. On Wednesday, new rules go into effect for any school with a career-training program. Graduates have to be able to earn enough money to repay their student loans, or a school risks losing access to financial aid. In general, annual loan payments shouldn't exceed 20 percent of a graduate's discretionary income or 8 percent of total earnings.

It's a modest step, consumer advocates say, that will probably succeed in shutting down the most obviously fraudulent programs, often criminal justice and medical training programs that can cost as much as $75,000 but aren't sought after by employers. Still, the government's new definition for "gainful employment" is unlikely to change what's become a complicated, enduring problem in the U.S.

Too many poor kids, mostly minorities, are reaching adulthood with little education, no prospect of attending a four-year traditional college and not enough time, money or knowhow to figure out an alternative path through a local community college. What these students do have is eligibility for government-backed student loans and grants, making them targets for predatory lending schemes that look much like tactics used by subprime lenders during the housing crisis.

Meanwhile, there remains little appetite in Congress and the White House to wade into the business of deciding which diplomas and schools are worthwhile. House and Senate Republicans have proposed blocking enforcement of the regulations, while the White House said it's backing off from the idea of developing its own college ratings plan.

"This is a civil rights issue, plain and simple," said Maura Dundon, senior policy council at the Center for Responsible Lending, which estimates that 28 percent of black students studying for a four-year degree are enrolled at a for-profit college compared to only 10 percent of white students.

For-profit schools say they are meeting a need of students looking for job training.

"Who else in higher education is educating these students? I have yet to get a cogent answer to this," said Noah Black, a spokesman for the Association of Private Sector Colleges and Universities, or APSCU, a group that represents the $30 billion-a-year industry and sued unsuccessfully to block the regulations.

Well intentioned or not, the unfettered rise of for-profit colleges since the 1990s is costing taxpayers. For-profit schools consistently take in more federal loan money than nonprofit schools, despite enrolling a smaller number of students. Yet, for-profit students also account for 47 percent of all federal student loan defaults, according to a 2012 Senate investigation.

In addition to loan defaults, state and federal investigations have turned up widespread allegations of fraud and deceptive business practices, particularly in the case of the now-defunct for-profit chain Corinthian Colleges. The findings have been so startling that last month the Education Department launched a major consumer bailout program and appointed a "special master" to oversee debt relief for students.

Certain Corinthian-related programs, including those at Heald College, were deemed so unfair and predatory that the Education Department set up a website to make the process of debt relief easier for those students. Officials estimate bad debt resulting from Heald College at about $542 million.

The total could climb. The Education Department estimates it loaned some $3.6 billion in the past five years to Corinthian students before the government forced it to sell or close its campuses.

Other for-profits too are showing signs of trouble: ITT Educational Services, Education Management Corp., University of Phoenix, Career Education Corp., Kaplan and DeVry University are among those that have disclosed to shareholders that they are or have been subjects of investigations by state or federal authorities.

"These are our taxpayer dollars that form federal student loans, that are used to educate people and supposedly place them in jobs. When did that cease to be a public trust?" said Jack Conway, the state attorney general in Kentucky and the leader of a working group of 37 states investigating for-profit schools.

The latest regulations have so far survived two challenges in court, but include what reform advocates say is still a big loophole: The regulations only consider graduates of a program and whether they can find employment. The rules don't consider how many students attend a school and drop out, either because they were never qualified in the first place or because they realized the program wasn't going to get them a job.

White House officials said the rules are the toughest viable legal option at a time when many lawmakers are trying to defend the industry. They estimate the regulation will affect some 800,000 students enrolled in training programs that won't result in employment.

"This industry is well-funded, has powerful backers in Congress and has worked relentlessly to avoid even the most commonsense measures," Education Secretary Arne Duncan said. "But today, despite their efforts, new safeguards for students become a reality."

APSCU's Black said the administration's focus on employment makes the regulations so unfair. Nonprofit public and private colleges churn out numerous degrees that don't immediately translate into jobs, he said.

"By whose metric are these worthless degrees?" he asked.