For Profit Colleges or For Profit Scams?

July 2, 2012 - There has been a lot of data collected over the years on the value of higher education. But that data is very much a mixed bag if you throw in for-profit colleges. Schools that fall into this category often advertise themselves as a stepping stone to a better job and a better life. But if statistics mean anything to you, that "stepping stone" claim appears to be more fantasy than reality. And since many of these schools target their advertising to economically disadvantaged groups, and the default rates on student loans in these institutions is much higher than for public and private universities, there is a real question about the legitimacy of their business model.

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Admittance to many for-profit colleges is based on your ability to pay (or borrow) rather than on prior grades. Many schools that fall into this category don't have any form of accreditation that would allow students to transfer their credits to other schools. That means that once you start a program, you either need to finish it in the same institution or to start all over at another school.

And once someone graduates from a for-profit program, they are often saddled with loan debt and left without a job to repay that debt. This leaves taxpayers on the hook for their unpaid student loans.

A new study published by the National Bureau of Economic Research (NBER) would appear to reinforce our skeptical view of for-profit colleges. The study's authors concluded that graduates of certificate or associate degree programs offered by for-profit colleges saw absolutely no economic benefit as a result of their graduation. This sharply contrasts with graduates from public and private universities where there are large increases in pay associated with graduation.

The federal Department of Education has been trying to change the way for-profit colleges are evaluated for student loans, but there has been stiff resistance from these institutions. It is no wonder given the amount of money involved. In 2009, the last year for which actual numbers are available, for-profit colleges received $4 billion in federal PEL Grant money. They received an additional $7 billion in the form of subsidized federal student loans. Yet according to an Associated Press analysis, only 38% of the people who start a for-profit program actually graduate. And, as previously noted, those that do are not likely to see an increase in income.

The Department of Education had planned to implement new rules for student loans that would have required programs at all colleges and universities to prove that their graduates had the ability to repay their loans. Programs that failed the test would have been ineligible for federally guaranteed student loan. The bar that the DOE set under these new guidelines was minimal. It only required that 35% of those who took out student loans at a particular school, for a particular major, need be current on their loans. Any program that met that threshold would continue to be able.

But a federal judge has now overturned that rule; which is called the "gainful employment rule" and was scheduled to go into effect yesterday. Judge Rudolph Contreras said that the 35% repayment rate was "arbitrary". He did however leave in place a portion of the rule that requires schools to provide data on employment and income for graduates.

It remains to be seen if the DOE will appeal the ruling or if they will attempt to modify the actual rule. But the bottom line for anyone considering a for-profit college is that they better think long and hard before enrolling. You will be much better off by going to a public or private university. If you can't get in, there is probably a reason for that. Better to work on meeting the entry requirements and trying again than to be saddled with tens of thousands of dollars in student loan debt that you will never be able to repay, and which you can't legally discharge even through a bankruptcy.

byJim Malmberg
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