COMMENTARY FOR-PROFIT EDUCATION

Colleges Highly Dependent on Federal Aid Should Prove Their Worth

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Reading all of the stories in the media about people who borrowed a pile of money to enroll in what turned out to be a low-quality for-profit college can leave you scratching your head. Why would they do that? In her new book, *Lower Ed*, Tressie McMillan Cottom gives us some answers.

First as an employee of two different for-profit chains, and then posing as a prospective student to hear the sales pitches, Cottom divined a pattern in how the students were steered—railroaded, really—into decisions that ended up making them worse off. Recruiters, she explains, were trained to divert prospects' attention from the price of tuition, and focus instead on the immediate, out-of-pocket expenses—which with federal aid could be close to nothing. It was not until the student loans were eventually due—often years after enrollment—that the students realized they would be paying double the tuition of other options. By that time it was too late, and their educations had failed to lead to the high-paying jobs that they had been led to believe were in their future.

The for-profit schools' eligibility for government aid had another effect, too. The imprimatur created an impression that the United States of America considered the degree to be worth the price. After all, why else would the feds pay for it? Certainly the government knows more about the value of a college than does a low-income student with poor job prospects and no close family members who had ever gotten a degree.

Cottom, who went on to become an education scholar following her work in these for-profit schools, was onto a scam that is as old as federal financial aid itself. In 1976 the Nixon-Ford administrations' Federal Trade Commission (FTC) found: "Often the mere mention of the federal government to potential students implies, and is understood as, government inspection and approval of course content and job placement capabilities." A salesman's testified at the time:

> *I could go down in the ghetto and stand on the corner and enroll all kinds of people if it is free. He doesn't care if the course is airlines, insurance adjusting, hotel-motel management, or what, if it is free, going to be paid for by the government and you can get him a job. He would have to be crazy not to do this. This is a salesman's dream.*

As an African-American woman, Cottom was able to hear today's version of those sales pitches when she posed as a prospective student, because to the recruiters she met, she looked the profile of the perfect recruit: believably desperate to improve her life situation, likely without anyone besides the recruiter to guide her decisions, and probably eligible for the maximum amount of federal grants and loans available. The profile is much like the type of vulnerable student that the FTC, in that same 1976 report, found in droves at for-profit schools of that era:

> *This type of consumer just does not have an independent standard or guidance by which to measure vague and seductive claims about better jobs and high salaries. . . [S]uch an individual is particularly susceptible to a salesperson with a polished sales presentation who shows how the government will assist the consumer attending school and begin the road to success.*

The history should be sobering to anyone who believes the lobbyists' claims that today's for-profit colleges have been saviors for the poor, institutions that have charitably committed themselves to reaching the most downtrodden students. That claim is, more often than not, a cover for a brilliantly cynical business plan that keeps revenue high and expectations low.

Make Colleges Prove Their Value

There is a simple antidote to colleges using federal aid to escape the market discipline of having to convince consumers that the education is worth the price: require a critical mass of students whose tuition is paid not by the government but by the students themselves, or their families, or employers, or private scholarship programs.

Requiring colleges to prove their value in order to qualify for federal aid has worked before, but over time the requirement was weakened or eliminated, making the system vulnerable again. Congress's first use of a market-value test came in response to shenanigans involving the Post-World War II GI Bill. A special committee established to investigate the problems found that schools, most of them for-profit, would "write their own charges against the Treasurer of the United States without regard to the amount, type, and quality of service rendered." In 1950, the Veterans Administration (VA) was authorized by Congress to cap subsidized enrollment at no more than 75 percent of the students in a course; two years later, in establishing a new GI Bill for Korean War veterans, the allowed proportion was increased to 85 percent.

The "85-15 rule" contributed to a Korean-era GI Bill in the 1950s that was relatively scandal free. In the 1970s, however, abuses returned. As the federal government created new grant and loan programs for non-veterans, schools came to realize that, since the 85 percent cap applied only to veterans' programs and not to all federal programs, they could use other government vouchers to make up the remaining 15 percent to end up with virtually no students validating the tuition price. President Gerald Ford's VA asked for, and got, a fix by Congress that applied the GI Bill's 85-15 rule to *all federal grant aid, at all types of schools*. Though for-profit colleges sued to stop the rule, the Supreme Court upheld it as "a way of protecting veterans by allowing the free market mechanism to operate…minimiz[ing] the risk that veterans' benefits would be wasted on educational programs of little value."

The Ford administration also took steps to prevent schools from becoming too reliant on loans provided under the nascent federal student loan program. In a speech entitled "It's Time to Protect Education Consumers Too," Terrel Bell, the education commissioner (and later President Reagan's education secretary), explained, "I personally question the soundness of an institution whose existence is totally derived from signing up students who qualify for Federal aid." The agency adopted a new regulation mandating a review of any school where 60 percent or more of the enrolled students were using federal loans.

So by 1976, the Ford administration had adopted two market price-checks: a red light for any program in which 85 percent or more of the students were getting federal grant aid (the VA rule), and a yellow light for any school where more than 60 percent of the students had to take out federal loans. Those two standards, however, did not survive later congressional updates of the GI Bill and Higher Education Act. And today, a majority of institutions are above the 60-percent-with-loans danger threshold.[1]

What about the so-called 90-10 rule in effect today? The Higher Education Act does require that at least 10 percent of the revenue at for-profit colleges come from somewhere other than the Department of Education's grant and loan programs. But the rule is not working effectively as a market-value test because of two loopholes: First, it applies only to the department's funds, allowing the 10 percent to consist of the GI Bill or other federal aid. Second, it is a revenue test rather than a customer test, allowing a school to get away with charging 111 percent of the available financial aid so that the gap—the small amount the student must pay—covers the 10 percent requirement. The gambit means no student is validating the tuition price.

What If a School *Truly* Serves the Poor?

A school that is only enrolling low-income students may be doing God's work, but there is an equal if not greater likelihood—especially if it lacks the financial accountability of a public or nonprofit institution—that it is taking advantage of the students and of taxpayers. Tuition prices at federally-funded for-profit colleges are 80 percent higher than at for-profit schools without access to aid.

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There are certainly situations, though, when colleges that are heavily reliant on federal aid do operate in the best interests of students. To differentiate the school that is nobly committed to the poor from the one that is greedily preying on the poor, one useful test is whether the school has an oversight board without a financial conflict of interest that vouches for the mission and has final say over the school's pricing and spending decisions. That is what a "nonprofit" is supposed to be, though more scrutiny is needed to ensure that the oversight boards are independent. A second test might be whether the school invests significantly more to educate its students than the tuition it collects, as many nonprofits do because of the donations they receive.

As a general rule, however, policymakers should be highly suspicious of the "it's our demographics" excuse for poor student outcomes and excessive use of federal aid. Requiring schools to *prove* their value ultimately *improves* their value, because they are faced with the task of enrolling and retaining customers who are more demanding. We all benefit from the customers who insist on returning a poor-quality product or who complain about bad service. In efforts to promote quality child care, experts emphasize the importance of mixed-income programs both for the market forces that promote quality and for the child and parent interactions. Similar efforts are made in low-income housing programs, where experts recommend that developments have fewer than 40 percent of subsidized units.

Public policies should encourage education and training programs to prove their value by showing that they have customers—students, employers, parents—who will hold them to high standards because they are footing the bill. As the leader of a student veterans group said about colleges that are nearly completely financed by the GI Bill and other federal aid programs, "If no student is willing to put their own money in the game, how good is that education?"

Notes

1. At 59 percent of all colleges using federal aid, 60 percent or more of first-time, full-time freshmen took out federal student loans in 2013-14: 23 percent of public colleges and universities, 61 percent of nonprofit institutions, and 76 percent of for-profit institutions. TCF analysis of data from the U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS).

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