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OBAMA ADMINISTRATION TAKES AIM AT SOME FOR-PROFIT COLLEGES

Plan seeks to help stem the surge in Americans defaulting on their student loans

By Josh Mitchell
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WASHINGTON—The Obama administration identified hundreds of for-profit college programs Monday that are in danger of closing due to new rules designed to punish schools that leave students with high levels of debt, but weak job prospects.

If the high-debt levels continue, those colleges could lose access to federal student loans and grants, which most schools rely on for most of their revenue. Nearly a tenth of all career-training programs big enough to fall under the rules—almost all of them at for-profit colleges—are affected.

The move marks a key step in one of the administration's final moves to stem a yearslong surge in Americans defaulting on student loans.

"This is the first time institutions will be held accountable for leaving students with debt they cannot repay," said Ted Mitchell, the Education Department undersecretary who has headed the Obama administration's crackdown.

But it is unclear whether this plan will succeed, given Republicans' increased power in Washington. Some GOP members of Congress have called the effort a form of government overreach and vowed to block the rules through new legislation. The incoming Trump administration has talked broadly of reducing regulations on private companies.

Enrollment at for-profit colleges soared between 2000 and 2012 as more Americans, disproportionately poor and minorities, sought to learn skills in trades. Many took out student loans, but have failed to land well-paying jobs and are now in default.

The Obama administration completed the new rules in 2014 to punish programs whose pupils graduate with high debt burdens relative to what they earn shortly after leaving school.

The rules, known as "gainful employment," impose sanctions for programs if their graduates spend at least 20% of their discretionary income, as defined by a formula, or 8% of their total earnings each year paying off student debt. When programs fail that metric twice within three years, the plan calls for the government to prohibit students from taking out federal loans and grants to cover the programs' tuition—jeopardizing the schools' survival.

The rules, drafted under a decades-old law, apply to all vocational programs at for-profit, nonprofit and public schools. The programs generally award certificates and two-year degrees to train auto mechanics, nurses, hairdressers, early childhood teachers and other occupations.

The agency released the first round of data Monday under the new rules to show which schools are in danger of failing. It analyzed the debt burdens and earnings of students who graduated career programs between mid-2010 and mid-2012.

The agency said roughly 800 programs that awarded degrees or certificates to roughly 116,000 students in the two-year period are failing under the new rules. Those schools would lose funding as early as next year if they fail the metric when the next set of data is published, Mr. Mitchell said.

Under the rules, those schools must notify current students they are in danger of losing aid and lay out options, including the ability to transfer credits.

Also, the agency said more than 1,200 other programs with 243,000 graduates over the 2010-12 period are close to failing and would face sanctions in coming years if their graduates' finances don't improve.

The for-profit college industry unsuccessfully fought the plan in federal court. Industry officials and some Republicans say the rules unfairly target for-profit colleges. They point out that many nonvocational programs—such as those in the liberal arts—would fail the metrics if the rules applied to them.