WHAT WE THINK: HIGHER EDUCATION, DEEPER DEBT

College debt bubble

Think of debt among college students like the temperature in a sick patient: The higher it rises, the more reason for alarm.

About half the Florida college or university graduates in 2009, the most recent year for which figures are available, left school in debt for loans they took to cover the cost of their higher educations.

The average debt load topped $20,000, a jump of more than a third from 2001. That 2009 total was slightly below the national average, despite Florida’s low tuition compared to most other states. And the forces driving the rise in student debt in Florida — higher tuition, lower aid — have only intensified since then.

Debt-burdened college graduates are venturing into an economy where jobs are scarce, especially the kind that pay enough to cover student loan payments after basic living expenses.

In Florida, the unemployment rate has been in double digits since May of 2009. It’s not surprising that the default rate on student loans in the Sunshine State has been higher than the national average.

The spike in total student debt — at more than $600 billion nationally, it even topped credit card debt last year — is a drag on the economy; as many graduates put off big purchases like homes and cars and move back home with their parents.

If a further decline in the job market leads to a flood of student loan defaults, the economy could face another bursting bubble even as it struggles to recover from the foreclosure crisis.

In the coming months, we’ll be looking more at the rise in student debt and what leaders in Washington and Florida should be doing about it. It’s an issue with profound implications, not just for the future of the students, but for the health of the state’s economy.

Some basic factors explain the growing debt burden for many college students in Florida:

■ The cost of college keeps going up. Public universi-}

The gist:
Students’ loan obligations are growing, posing a risk to their futures and the economy.

■ State funding for higher education is going down. Universities and colleges say they need to hike their tuitions to offset the cuts. Legislators lopped off another 4 percent from next year’s budget, which adds up to millions at the biggest schools, including $17.9 million at the University of Central Florida.

■ State aid to students also is going down. Legislators cut Bright Futures, the state’s main merit-based scholarship program, by about 20 percent for next year. They cut grants to students attending private nonprofit colleges by about 12 percent, and for-profit colleges by some 15 percent. We understand the need for some of these cuts, but they’re helping push students deeper into debt.

■ Private for-profit colleges in Florida and across the nation have aggressively marketed their programs as an alternative to public colleges, but tuition at for-profits is much higher. So are the student-loan default rates. High-pressure recruiting by some schools has drawn the attention of federal and state officials, including Florida’s attorney general.

We agree with the board that oversees the state’s public universities, which declared in December: “Florida must have well-educated citizens who are working in diverse fields, from science and engineering to medicine and bioscience to computer science, the arts and so much more.”

But if those citizens are weighed down by debt, they — and the state’s economy — will suffer:
WHAT WE THINK: HIGHER EDUCATION, DEEPER DEBT

Borrowing trouble

In an editorial a week ago, we pointed out the dangers from the rising debt load on today’s college students. Not just for the students themselves, but for the taxpayers guaranteeing their loans, and for the U.S. economy. And no one’s packing in students who are packing on debt like for-profit colleges.

Enrollment in for-profit colleges nationwide has quadrupled over the past decade. In Florida, about 370,000 students are working toward degrees or certificates in these colleges, compared with about 900,000 in the state’s 28 public colleges.

But for-profit schools often charge much-higher tuitions, which means their students end up deeper in hock. Nationally, more than 90 percent of students at for-profit colleges borrow to bankroll their educations, compared with 13 percent at public colleges. With jobs scarce and wages stagnant, it’s harder than ever for students to repay their loans.

Debt loads have become such a problem for students from for-profit schools that U.S. Sen. Tom Harkin, an Iowa Democrat, has come up with an unflattering label for the industry: subprime colleges.

Industry leaders vehemently reject the comparison, but there’s logic behind it. Just as subprime lenders targeted borrowers who might have had difficulty getting conventional mortgages, for-profit colleges say they cater to non-traditional students — often older, or lower-income — who might find it harder to earn degrees or certificates.

And while subprime loans backed by Fannie Mae and Freddie Mac got dumped on taxpayers when the government took over the two mortgage giants, taxpayers also are on the hook for billions of dollars worth of student loans with government guarantees.

According to the nonprofit Institute for College Access & Success, 22.3 percent of students at for-profit colleges who started repaying their debts in 2008 had defaulted within three years, nearly double the rate for all college students. The three-year default rate was even higher at Florida’s for-profits: 26 percent.

Students who don’t pay their loans end up with a debt that can shadow them the rest of their lives. Their wages may get garnished. Bankruptcy won’t get them out from under the debt.

At a Senate hearing this month, Harkin blamed high tuitions at for-profit colleges for their students’ higher debt and default rates. He said an associate’s degree in business from Everest University, which has locations in Orlando and across the state, cost $46,792, while the same degree at Miami Dade College cost just $6,453.

We recognize that for-profit schools play a valuable role in higher education, and we don’t favor government-imposed limits on their tuitions. Let the market work. But schools that turn out high numbers of students who can’t pay their loans shouldn’t be eligible for taxpayer-backed government guarantees.

That was the intent of a regulation proposed last year by the Department of Education. Under pressure from the industry and its pals in Congress, the department weakened the rule. Now, even schools with the worst records for students who can’t afford their loans won’t risk losing access to federal guarantees before 2015.

Congress should demand a tougher rule. Meanwhile, there are other things that federal and state lawmakers can do, like targeting grants to students with the greatest need, making more room for students at lower-cost public colleges, and tightening oversight of for-profit colleges that mislead or badger students to take on unmanageable debts. (We’ll take a closer look at recruiting in a future editorial.)

An educated work force is vital to economic growth and opportunity so we’re all for expanding access to college. But students shouldn’t incur crushing debts in the process, and taxpayers shouldn’t get soaked.
WHAT WE THINK: HIGHER EDUCATION, DEEPER DEBT

Keep eye on colleges

Business at for-profit colleges in Florida and across the nation is booming, bolstered by enrollment from nontraditional students — often older and lower income — who are anxious for a ticket to a successful career in a tough economy.

But reports of high-pressure and deceptive recruiting practices, high tuitions and high loan-default rates at some of these colleges cry out for federal and state authorities to wake up. The students are at risk, and so are taxpayers who back their loans.

Last year, after an investigation of 15 for-profit colleges, the Government Accountability Office reported that “all 15 made deceptive or otherwise questionable statements” to GAO investigators posing as applicants. Four colleges “encouraged fraudulent practices” — falsifying financial aid forms.

The GAO, Congress’ nonpartisan investigative arm, didn’t name the 15 colleges, but the schools were outed in a congressional hearing. Two — Medvance Institute and Kaplan Inc. — were in Florida.

The GAO’s investigators reported being subjected to high-pressure pitches to enroll and swamped with follow-up phone calls. Investigators also reported being misled about their likely earnings after graduation and the dangers of defaulting on student loans. The GAO later made some revisions to its report but said none of its core findings had changed.

Last year the GAO report and consumer complaints led then-Florida Attorney General Bill McCollum to launch probes into eight for-profit colleges. The group includes the two in the GAO report and industry leaders such as the University of Phoenix. The investigations remain open under current Attorney General Pam Bondi.

This month Bondi also joined her Illinois and California counterparts and the U.S. Department of Justice in a lawsuit brought by whistleblowers against one for-profit operator, Education Management Corporation, which has campuses in Florida. The lawsuit accuses the company of violating a ban on paying recruiters commissions to enroll students.

Regardless of the outcome of any investigations and lawsuits, some facts about for-profit colleges are clear. On average, they charge much higher tuition than their public counterparts. Their defaults rates on student loans are nearly double. Most loans are federally guaranteed, which means taxpayers get stuck with the bill when students can’t pay.

But Washington, D.C., and Tallahassee are still treating for-profit colleges with kid gloves. Last year the U.S. Department of Education proposed disqualifying for-profit colleges from federal aid if too many of their students graduate with unaffordable debt loads or default on loans. After a multi-million-dollar lobbying blitz from the industry, the department watered down its proposal.

This year, Florida’s auditor general faulted the state commission that oversees for-profit colleges for failing to carry out such regulatory basics as setting performance benchmarks and responding promptly to complaints. Four of the seven commission members work in the industry.

Florida lawmakers need to take seriously the state’s responsibility to oversee for-profit colleges and protect their students. They should start by putting a more independent and dedicated regulator in charge.

Meanwhile, the U.S. Education Department or Congress needs to take another crack at raising the eligibility standards for federal student aid, so that for-profit colleges that leave students with unpayable debt loads don’t continue to qualify.

State and federal authorities must do better. For-profit colleges are leading too many students into debt and default.
WHAT WE THINK  HIGHER EDUCATION, DEEPER DEBT

BONDI NEEDS COMPANY IN WATCHING COLLEGES

Florida Attorney General Pam Bondi’s consumer protection credibility took a hit last month after her office ousted two top foreclosure fraud lawyers. She tempered the damage this month when she decided Florida would join an anti-fraud lawsuit against the nation’s second-largest for-profit college chain.

Bondi’s interest in cracking down on alleged fraud in the for-profit college industry in Florida is commendable. Unfortunately, her office seems to be the only state agency taking the issue seriously.

The stakes are huge, for students and taxpayers. More than 300,000 students are working toward degrees or certificates at more than 900 for-profit colleges in the state. Those schools collect at least $1.5 billion a year in federal grants and loans. Taxpayers bankroll the grants, and are on the hook if students default on their loans.

In Florida, about one in four students at for-profit colleges who began repaying student loans in 2008 had defaulted by the end of 2010, roughly double the rate at public universities. For-profit colleges charge higher tuitions, leaving graduates with heavier debt loads.

The lawsuit Bondi joined accuses Pittsburgh-based Education Management Corp., which has nine Florida campuses, of violating a law against paying recruiters bonuses to enroll more students. Congress passed the law to discourage colleges from taking in unqualified students just to pocket their grants and loans.

Bondi also has continued investigations into a half-dozen for-profit college chains launched under predecessor Bill McCollum in response to consumer complaints and a federal investigation.

The Attorney General’s Office has stepped into a gap left by the state’s lead regulator of for-profit colleges, the Commission for Independent Education. This year, Florida’s auditor general found the commission didn’t even have written policies and procedures, and didn’t respond promptly to consumer complaints.

Not every state takes Florida’s laissez-faire approach to regulating for-profit colleges. A regulatory agency in Texas recently penalized ATI Enterprises, a chain it accused of misleading students and regulators about the job-placement rate of graduates at its campuses in the state.

ATI also has campuses in Miami and Fort Lauderdale but is not under investigation in Florida. Yet figures compiled by The Institute for College Access and Success, a nonprofit watchdog, show that more than one in three students from those two campuses who began repaying loans in 2008 had defaulted by the end of 2010.

If figures like these don’t grab the attention of Florida regulators, Gov. Rick Scott and legislators need to shake up the state’s system for overseeing for-profit colleges.
WHAT WE THINK

LOAN DEFAULT SURGE BEGS FOR STATE ACTION

Gov. Rick Scott and state legislators are pondering big changes in higher education, including limits on tenure for professors at public universities. But there's another issue that's begging for attention: the rising rate of student loan defaults at universities and colleges in Florida.

Figures released by the U.S. Department of Education this month showed more than one in 10 Floridians required to start repaying student loans in 2009 had defaulted by the end of last year. The state's 10.5 percent default rate topped the national rate of 8.8 percent, and made Florida the ninth worst state for students going belly up on their loans.

Defaults can be disastrous for students — ruining their credit; impairing their ability to buy a car or rent an apartment so they can live independently; and disqualifying them from federal aid if they ever try to go back to school. These students can become a permanent drag on the economy.

Defaults also are bad news for taxpayers. Billions in student loans are guaranteed by the federal government, so when students don't repay them, taxpayers take the hit.

The problem is worst among students from for-profit colleges, because those schools typically charge higher tuitions than their public counterparts. As a result, for-profit college students borrow more and go deeper into debt.

The latest Education Department figures show a national default rate of 15 percent among students from for-profit colleges, more than double the rate among public-college students.

The federal government has begun a belated crackdown on for-profit colleges with high default rates, threatening to cut off their eligibility for federal grants and loans if their numbers don't get better.

But states regulate colleges and universities within their boundaries, too, which means they also bear a responsibility for addressing high default rates.

Some states, including Texas, take this responsibility seriously. This year its regulators shut down 22 programs at a for-profit chain of colleges they accused of misrepresenting job-placement figures.

Other states, including Florida, don't. An audit this year of the state panel that regulates for-profit colleges found it lacked written policies and procedures, and didn't respond promptly to consumer complaints.

Defaults at Florida's public colleges and universities also merit the attention of policy makers — especially in any plans to hike tuition and fees or reduce aid.

The fact that federal rather than state tax dollars are at stake doesn't lessen Florida's obligation to do more about high student-loan defaults. Last time we checked, Floridians paid federal taxes, too.
WHAT WE THINK

STATE MUST WAKE UP TO STUDENT DEFAULTS

At Orlando's Centura Institute, a private health-care career college, 26 percent of students whose loans came due in 2009 had defaulted by the end of 2010, according to recent federal statistics.

That means one in four face financial ruin — wrecked credit, docked wages and no more aid if they go back to school.

The statistics on loan defaults among college students show Florida with a higher overall rate, at 10.5 percent, than the national figure of 8.8 percent. The numbers at the state's 100 or so for-profit colleges, including Centura, are even worse. All but a few posted higher default rates than the Florida average.

And because most college loans are federally guaranteed, defaults are a burden on taxpayers, too. They get stuck with the bill when students don't pay.

Florida's response? (Imagine crickets chirping.) Instead, leaders' hair should be on fire, knowing a big share of the next generation will enter the working world with the decked stacked against them.

Centura didn't respond to requests for comment about its high student-default rate. But representatives of the for-profit college industry say their schools suffer higher rates because their students are often older, working adults who can't rely on family for help.

Maybe, but the industry also charges far higher tuition than public colleges, so its students go deeper into debt. And the numbers indicate that bigger investment often doesn't land them jobs that pay enough to cover their debts.

High default rates at for-profit colleges have drawn scrutiny from Congress as well as federal and other state regulators. The U.S. Education Department has decided to deny federal aid for schools that don't bring down their default numbers by 2014.

The Florida agency that licenses for-profit colleges, the Commission for Independent Education, insists it lacks the authority to act because student loans are a "federal program." But the commission's responsibilities, according to its annual report, include protecting consumers. If the commission were serious, it would wield its licensing power to put pressure on colleges with high default rates.

In September, after months of Sentinel stories about mismanagement and waste at Central Florida's job development agency, Gov. Rick Scott demanded the resignations of its executives and board members. He wasn't put off by the fact that the agency is funded by federal, not state tax dollars. "My administration has zero tolerance for the misuse of taxpayer dollars," he said.

Scott should prove it by leading a crackdown on high student-loan defaults.