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Regulating the business of education

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AS EDUCATION LENDERS have targeted students, parents, and institutions with the same kinds of sharp business practices seen in other consumer lending, the Education Department has shown little competence or inclination to protect a vulnerable population of consumers. The regulation of student loans should leave the Education Department and go to consumer regulators with the competence and inclination to protect those who will be responsible for paying the loans.

Postsecondary education and the loans funding it are big business affecting most Americans. The loans fund the purchase of a significant product, often an individual's first major financial and life-shaping purchase, touching a wide swath of vulnerable customers across America. The federal government plays a major role in financing student grants and subsidized loans that help students pay for their studies.

This is an area far larger than traditional higher education. Postsecondary education embraces the broad range of education and training beyond high school, including proprietary trade schools that often replace traditional college, and mid-career job retraining. It also encompasses traditional higher education institutions increasingly run as business enterprises, attracting students with marketing, and employing burgeoning fleets of lawyers and MBAs overseeing the academic world as if faculty were middle managers in corporate America.

Proprietary schools are often enterprises serving students across states, making a profit by selling education and training as a service. This service is often paid for with government grants and a mix of subsidized and market-rate loans to finance tuition, with the obligation that will reside with students for many years beyond their studies to repay those loans. Proprietary schools are big business, not your father's four-year college.

Lenders are also big businesses, operating nationally and cultivating both profit and nonprofit postsecondary education as a market in which they can sell financing, a sector of the overall lending market like mortgages, car loans, or credit cards. That lenders are offering gifts or other incentives to those who can refer students is no more surprising than to hear that these kinds of inducements are provided to the finance manager at a used car dealer.

By cultivating educational institutions, lenders can target the market of students who take loans to pay tuition, much as cultivating car dealers allows lenders to target car buyers. Just as car dealers rely on loans to sell cars and real estate agents rely on mortgages to sell houses, all elements of postsecondary education (proprietary and not-for-profit) rely on ready availability of loans to sell their service to students and their parents. The symbiotic relationship of lenders and postsecondary education is the same as for any other large consumer credit purchase.

When the cost is significant and financing is through loans that will be paid by the student recipients long into their working lives, or by their parents, it raises the same kinds of concerns as any other major consumer transaction. And postsecondary education is a national issue. It is consumed by a mobile population, students who may live or go to school in any state and may have this debt follow them. The common national questions raised here transcend any state's border or regulatory power.

The Education Department is an agency that sees itself as aiding in the education of Americans, not as a consumer watchdog. People are not brought to the Education Department to protect the consumers of educational services -- from the policy makers to the auditors in the Inspector General's office, they serve the status quo. They have historically had a greater interest in the availability of student aid and student loan repayment than in assuring that the students have gotten their money's worth in the first place.

Because postsecondary education has become a high-cost product provided as a line of business across America, and it is often purchased with large debt that can burden young lives for decades, the businesses engaging in all aspects of these transactions should be treated and comprehensively regulated as something quite different from traditional higher education. The students whose future may be shaped by their debt as much as by their education require a regulator committed to these consumers and not the industry serving them.

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