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We just got even more evidence supporting the theory that charter schools are America's new subprime mortgages

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Steve Carell and Ryan Gosling in "The Big Short," a movie about the housing bubble during the 2000s.

Paramount Pictures

The Office of the Inspector General late last month released the results of a damning audit of the charter school industry, which found that charter schools' relationships with their management organizations pose a significant risk to the aim of the Department of Education.

The OIG is a federal agency that works to prevent inefficient or illegal activities.

The findings in the audit, specifically in regard to those relationships, echo the findings of a 2015 study that warned of a bubble similar to that of the subprime-mortgage crisis, one of the study's authors, Preston Green, told Business Insider.

"I'm happy that the Office of the Inspector General is shining a light on the issue about the need for greater accountability," Green said.

The study, titled "Are charter schools the new subprime loans?," notes that several factors appearing to edge the charter school industry — schools funded partly by tax dollars but run independently — toward a bubble are similar to those that encouraged banks to start offering risky mortgage loans.

One such similarity is what the study calls the "principal-agent problem."

In the mortgage crisis, mortgage servicers began handling administrative tasks that originators used to do, such as collecting fees from late payments or foreclosures. Since the servicers were compensated to foreclose on loans rather than find alternatives, the incentives of the servicers and the originators diverged, which negatively affected both homeowners and banks that forecasted mortgage payments into the future.

Charter schools have this same misalignment with third-party management organizations, according to the study. Many charter school boards hire private education-management organizations — with similarly divergent interests as the loan servicers in the mortgage crisis — to run the school's day-to-day administrative tasks.

A scene from "The Big Short."

Jaap Buitendijk/Paramount

The study found that while charter school boards have a responsibility to follow the same laws that relate to public schools, the incentive of these outside organizations is to increase revenue or cut expenses. That misalignment creates an environment that may discriminate against students who the organizations see as "too expensive," such as those with disabilities, according to the study.

The recent OIG audit found the same divergence of incentives within the charter school market, and noted that 22 of the 33 schools in its review had internal control weaknesses.

"The Department's internal controls were insufficient to mitigate the significant financial, lack of accountability and performance risks that charter school relationships with CMOs" — charter management organizations — "pose to Department program objectives," the OIG wrote in the audit.

The factors leading up to the mortgage crisis look eerily similar to the ones currently affecting the charter school industry, and the authors of the 2015 study predicted that if the bubble were to burst, some students could be stranded without alternatives. Local districts could also face lawsuits, not to mention investors in the sector would lose money.

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