The Corinthian Sale: Lessons Learned and Dealing with Future Challenges

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The February 2015 sale of about half of Corinthian campuses to Zenith Education Group—a brand-new subsidiary of the student loan guaranty agency and debt collector ECMC—provides an opportunity to reflect on lessons learned and prepare for the possibility of "future Corinthians." For students enrolled in troubled for-profit schools who face either their institution's closure or the fire sale of damaged merchandise to the highest bidder, the fundamental questions are:

- Should students be able to obtain refunds and start anew because degrees from such institutions are often overpriced and worthless? or
- Should the Department of Education, as it did in the Corinthian sale, allow students to continue their education with minimal disruption by making every effort to keep predatory, high-cost, low quality schools open?

I. Terms of the Corinthian Deal

A. Original Terms

ED released the original terms of the proposed sale of 56 Corinthian campuses to ECMC Group in November 2014. The Term Sheet specified the following ECMC steps to strengthen programs and protections for students.

- **Reduce tuition**. ECMC agreed to improve affordability by reducing tuition by 20 percent for new students in most Everest programs, effective immediately upon closing. It further agreed not to increase tuition by more than CPI+2 percent in any year for a period of 3 years following the closing, and not to increase tuition by more than CPI+4 percent in any year for the period from 4 years following the closing until 7 years following the closing. Existing students who enroll in additional courses will also benefit from this reduction.
- **Award scholarships.** The company agreed to award millions of dollars each year in institutional grants to fill gaps in funding so that students will not be forced to take out private loans.
- **Teach out or cap enrollment in specified programs.** ECMC agreed to teach out existing Criminal Justice Associate degree programs and to cease enrolling additional students. In addition, it will give existing students in that program four options: (1) transfer to a criminal justice *certificate* program with a

placement rate above 66 percent (if available at their campus) at no additional cost, (2) transfer their general education credits to a different program, (3) transfer their Associate degree credits to a different institution, or (4) complete their program. Finally, it will cap new enrollment in business, criminal justice certificate, and legal assistant/paralegal programs with placement rates below 66 percent.

- **Implement specific "conduct" provisions**. ECMC agreed to hire an independent monitor to oversee its compliance with ED terms. In addition, it agreed to unspecified reforms in three areas—a cooling off period, mandatory disclosures, and changes to its arbitration provisions. These reforms were spelled out in greater detail in revised, final terms that ED announced in February 2015 (see below).

In addition to the commitments included in the Term Sheet, ECMC's press release elaborated on additional reforms it planned to make.

- **Greater accountability and transparency**. ECMC said that it would ensure that two key measures of student success are met: strong program completion rates and job placement rates. It intends to transform the culture of the campus system by bringing on a new senior executive team and through a new strategic focus on educational programming and the overall student value proposition. The company will also expand oversight by consolidating and centralizing all compliance, quality control and internal audit functions under ECMC purview. Additionally, ECMC Group plans to provide students easy access to more information about their educational programs, relevant placement rates, and other measures of their likely success.
- **Improved job placement**. ECMC and campus leadership will coordinate with local and regional employers to ensure that skills being taught in the classroom reflect actual workforce needs and will lead to jobs in their field of study. ECMC will also lead a comprehensive review of all programs with a goal of improving and, if warranted, eliminating those that underperform. Students in specific underperforming programs will be given a choice of options, including a refund of loans that would be funded by ECMC.
- **Individualized student support**. ECMC said that it will maintain smaller class sizes to re-emphasize quality learning over enrollment. Additionally, it will improve academic counseling, tutoring, and remedial education services to ensure that more students have the tools and resources required for successful program completion; financial literacy counseling to help students better manage their student loans and reduce student loan debt; and career counseling services to provide clear paths to good jobs related to their fields of study.

Finally, the Term Sheet specified that Corinthian had agreed to forgive all principal, interest, and other indebtedness under outstanding private student loan notes it or any of its affiliates held, with an estimated principal amount of $3.8 million.

B. Revised Terms

Objections to the original terms of the sale by a coalition of civil rights, veterans, student, and consumer groups (http://www.protectstudentsandtaxpayers.org/wp-content/uploads/2014/12/CoalitionLetterOnCOCO-ECMCSale_December17_2014_FINALREV.pdf) and by Members of Congress helped push the Department of Education and ECMC to make significant changes that will benefit former and current Corinthian students.

- **Private loan debt relief.** Students saddled with Corinthian's predatory private loans will (1) see an immediate 40 percent reduction in the principal on $480 million in private loans with the promise of more debt relief to come, (2) have negative information about those loans removed from their credit histories, and (3) receive ECMC's commitment that debt collectors will not threaten to sue those who fail to repay their private loans. In return, the CFPB has agreed to provide ECMC with immunity in the Bureau's ongoing lawsuit over Corinthian's now defunct private loan program. Although the original terms prohibited ECMC from establishing a private student loan program, the ban is now for a finite, 7-year period.
- **End to binding, mandatory arbitration.** Many for-profit schools' enrollment agreements, including Corinthian's, require students to settle any grievances through arbitration. As far as we know, the only nonprofit schools with such binding arbitration agreements are two former for-profit schools that recently converted to nonprofit status. ECMC abandoned its insistence that it be able to require binding arbitration, and instead agreed to allow students to redress individual grievances in court.
- **Compliance with Gainful Employment regulations.** Although ECMC's new nonprofit status would have freed its degree programs from complying with ED's Gainful Employment regulations, the department's press release indicated that ECMC has pledged to comply voluntarily with the regulations.
- **More comprehensive student services.** ECMC committed to provide more robust career, financial aid, and academic counseling services to students. The 2012 Senate HELP Committee report on for-profits provided benchmarks against which to assess ECMC's commitment:
    - Corinthian employed one recruiter for every 40 students in 2010 while each career counselor was responsible for 145 students, and each student services staffer was responsible for 160 students.
    - AG lawsuits alleged that Corinthian deliberately inflated job placement rates for its graduates, including a settlement reached with California.
- **Cooling-off period.** Within 5 days after signing an enrollment agreement, students may withdraw and receive a refund of all payments made by or on their behalf.
- **Mandatory disclosures.** ECMC agreed to rules for calculating completion and job placement rates and also agreed to include disclosures on its enrollment

forms concerning the transfer of credits and accreditation, the latter subject to the approval or applicable governmental and educational regulatory authorities.

- **Reporting via school websites**. School websites must include the names and credentials of faculty, completion and job placement rates, cohort default rates, and median loan debt. Nonprofit and public institutions typically include information about their faculty on school websites.

C. Unanswered Questions on the ECMC Sale

Although ECMC promised greater transparency and accountability, the official information released about the sale lacks both, leaving numerous unanswered questions.

- **What will happen to the campuses ECMC didn't purchase**? The sales agreement requires Corinthian to pay ECMC for certain services over the next year, services that will allow the continued operation of its unsold campuses. If no prospective buyer has emerged after more than 7 months, isn't it time for ED to require their closure? Does ED really believe that postponing the inevitable for up to a year is really in the best interests of Corinthian students? And, in the meantime, Corinthian continues to enroll new students. It's not fair to let students continue to work toward a degree from an institution that has a poor track record and that may soon cease to exist.
- **Who owns Corinthian's private student loans**? Although Corinthian apparently sold its private loan portfolio in October 2014, the details about who purchased the portfolio and who is in charge of the loan forgiveness remain murky. Did this entity purchase the entire Corinthian loan portfolio? What control or influence does ECMC have over this entity? Who is directing the credit bureaus to stop reporting negative information on borrowers? What and who does the $480 million in loan forgiveness cover given that the entire amount of the Corinthian loan portfolio was closer to $1 billion and only 40 percent of students' private loan debt is being forgiven at this time? And finally, will the credit reporting and debt collection protection provisions extend only to past account activity, or to all activity on the loans going forward as well?
- **Why did ED allocate $7.5 million of the funds it was scheduled to receive from ECMC for private loan forgiveness**? Ironically, ED rather than ECMC contributed the funds necessary to help forgive the principal amount on Corinthian's private loans. Why didn't ED insist on adding $7.5 million to the $24 million Corinthian sale price?

The answer seems to be the same for many of these questions—ED desperately wanted Corinthian to find a buyer, and it would do almost anything to get ECMC to close the deal.

II. Lessons Learned

A. Concerns Remain about the Corinthian-ECMC Sale

Despite these improvements to the original terms of the Corinthian sale, fundamental concerns remain.

- **Too Big to Fail**. Rather than encouraging students to seek educational opportunities elsewhere, ED is making a risky bet with taxpayer dollars. EDs decision to support ECMC's purchase of Corinthian assets suggests it was viewed as simply "too big to fail." Why else would the Department bless the sale to a company with (1) no experience running an educational institution and (2) a reputation for using ruthless student loan debt collection tactics. Many are skeptical that ECMC has the integrity, patience, or capacity to turn around an entity that both employers and prospective students now view with skepticism.
- **Retention of former Corinthian management**. Transformation appears to be off to a slow, if not discouraging, start. When the planned acquisition was initially announced, ECMC's CEO Dave Hawn promised that observers would be impressed by the caliber of Zenith's new management team. After the sale was finalized, ECMC announced its first appointment—Troy Stoval, to be interim president. Stoval previously served as a management consultant, and for 2 years, as the chief operating officer at Howard University. A search of LinkedIn revealed that Zenith had also hired (1) Corinthian's senior VP/Academic officer to fill the same role for the 53 campuses it had purchased, and (2) a number of other Corinthian staff to replicate their roles at Zenith. ECMC states that it was in the process of recruiting new talent, but these hires sent the wrong message—a message of continuity rather than reform. Reform must be a priority for ECMC given the serious questions raised in the 2012 Senate HELP report about the academic quality of Corinthian's online offerings and issues surrounding academic rigor and integrity, such as the toleration of plagiarism.
- **No forgiveness of federal student loans**. While the decision to forgive 40 percent of the principal for Corinthian's predatory private loans is laudable, it is unfortunate that ED chose not to offer similar federal student loan debt relief. Corinthian's business model of high tuition requiring maximum student loans coupled with poor academic quality left many students with mountains of debt and limited prospects of finding well-paying jobs to help retire that debt. If, rather than facilitating its sale, ED had allowed Corinthian to close its doors, relief from federal student loan debt would have been automatic. Many students were harmed by ED's decision to approve the sale. The Massachusetts Attorney General joined Senator Elizabeth Warren in urging ED to forgive federal student loans (http://www.bostonglobe.com/business/2015/02/17/healey-seeks-loan-forgiveness-for-students-allegedly-deceived-for-profit-schools/CGCVkNEsviTCih2DeNf54K/story.html).
- **Change to nonprofit status.** Although ECMC agreed to abide by ED's Gainful Employment regulations, its decision to shed its for-profit status and join the

ranks of the nonprofits is a troubling sector trend. Several other for-profit schools—Keiser, Stevens-Henager, Remington, and Herzig—have also converted to nonprofit status. Their IRS filings suggest that their goal was to gain the legal benefits of nonprofit status while allowing the founders to reap enormous, and inappropriate, financial benefits. Currently, publicly-traded Grand Canyon University and CareerED are considering making the switch. As nonprofits, schools are generally free from ED's gainful employment requirements, and completely free from the 90/10 rule even though some still engage in predatory marketing and their quality may not have improved at all.

- **Jury trials and class action suits still banned.** Although ECMC agreed under pressure to end Corinthian's use of mandatory arbitration clauses in its enrollment agreements, the company insisted that students be banned from joining class-action lawsuits. Such suits are often the only effective means students can use to obtain legal representation and press schools to abandon bad practices. It is unclear if ECMC's new policy on mandatory arbitration will apply to employees and whistleblowers. Worse, when an actual Everest/Zenith student enrollment agreement surfaced, it turned out that ECMC's concession on civil litigation was, in fact, limited—the agreement permits students to sue, but they must consent to waive their right to a jury trial and to have all claims addressed instead by a judge. And the enrollment agreement bans not just class actions but "mass actions," meaning any suit with more than one plaintiff. Such limits severely restrict the capacity of students to seek redress for their injuries.
- **Conflict of interest in provision requiring future payments to ED**. Under the terms of the sale, ED will receive $17.5 million from ECMC over the course of 7 years, giving the Department an equity position in the venture. As a result, ED has a strong interest in seeing the company make a healthy profit. Such an arrangement represents a conflict of interest for a federal agency tasked with overseeing ECMC's conduct. This situation could have been easily avoided had ED simply insisted on an upfront payment as a condition for approving the sale. Advocates' pressure on both ED and ECMC to modify this provision were ignored.

B. The Case for Letting Students Start Anew

A 2012 Senate HELP Committee report examined the business model of 30 publicly traded and privately-owned for profit schools, including Corinthian. In general, the report found that these schools:

- used aggressive and misleading recruiting tactics;
- charged higher tuition than comparable public school alternatives;
- paid their CEOs exorbitant salaries;
- received the majority of their revenue from taxpayer dollars;
- devoted more of their revenue on a per-student basis to marketing, recruiting, and profits than to instruction;
- had high withdrawal rates, particularly for online programs;

- overwhelmingly depended on part-time faculty; and
- were under investigation by or had settled with numerous state Attorneys General and federal agencies over allegations concerning aggressive and misleading marketing practices and schemes resulting in students being forced to take out high-interest rate, private student loans.

Corinthian was one of the most aggressive practitioners of this business model—a model that wasted taxpayer dollars, mired students in federal and private loan debt, and left them without a degree or unable to find a job in their career field.

The following table compares the business model of the 30 for-profit schools studied to that of Corinthian, which was one of the schools examined.

For-Profit Schools' Business Model

Business model	30 for-profit schools studied	Corinthian
Tuition	• most charge higher tuition than comparable programs at community colleges and flagship state universities. BA degrees were 20 percent more costly and Associate degrees and Certificate programs were four to four-and-one half more expensive • for-profits regularly raise tuition, and some do so to create a gap between tuition and what federal and state aid will cover, forcing students to pay cash or take out private student loans, which help schools to maintain 90/10 compliance • vast majority of students left with student loan debt that may follow them throughout their lives, and can create a financial burden that is extremely difficult, and sometimes impossible, to escape	• cost of a diploma was among the highest and the cost of an Associate degree surpassed the next highest-cost school by 17% • Associate's degree in paralegal studies at one of its California campuses cost 17 times more than the same degree at a nearby community college—$41,149 compared to $2,392 • regularly raised tuition, including a 12% increase in February
Federal revenue	• received an average of 79% of their revenue from federal student aid plus military and veteran educational benefits (86% at the 15 publicly-traded schools) • targeted veterans in order to evade the 90/10 rule • 8 of the top 10 recipients of veterans Post-9/11 GI bill funds were for-profit education companies	• 83.1% of Corinthian's revenue ($1.4 billion) was derived from taxpayer dollars—federal student aid plus military educational benefits in 2010
Expenditure priorities	• 15 publicly-traded schools spent 23% of revenue on marketing and recruiting ($3.7 billion) and dedicated 19.7% to profit ($3.2 billion) in 2009	• allocated 22.5 percent ($294.7 million) to marketing and recruiting and 9.1 percent ($119.2 million) to profit
Executive compensation	• CEOs at 15 publicly-traded schools took home an average of $7.3 million in 2009, significantly outpacing compensation of community college and public school presidents	• paid its CEO $3.3 million in fiscal year 2009—more than eight times the compensation of the president of the University of California at Irvine • its compensation agreements make it clear that CEOs pay is based on meeting enrollment and profit goals, not

		student success
Recruiting tactics	• recruit as many students as possible because enrollment growth is critical to their business success, particularly for publicly traded companies whose revenue and profit expectations are closely watched by Wall Street • employed 35,202 recruiters, or about 1 recruiter for every 53 students attending in 2010, but relatively few career and student services staff per student • recruiters trained to call prospective students multiple times a day, to create a sense of urgency to enroll, and to identify and exploit vulnerabilities and pain in their live in order to persuade them to enroll • internal documents, interviews with former employees, and Government Accountability Office (GAO) undercover recordings demonstrate that many companies used tactics that misled prospective students with regard to the cost of the program, the availability and obligations of federal aid, the time to complete the program, the completion rates of other students, the job placement rate of other students, the transferability of the credit, or the reputation and accreditation of the school	• employed one recruiter for every 40 students while each career counselor was responsible for 145 students, and each student services staffer was responsible for 160 students • 22.5% of revenue ($294.7 million) was spent on marketing and recruiting in 2009 • trained its recruiters to sell the program, not advise students, and to discourage/deflect prospective students' questions about the school's high cost
Academic quality/student outcomes	• 80% of faculty on average were part-time with higher percentages at some schools, raising questions about their ability to exercise academic independence to balance the company's business interests • 15 publicly traded schools spent between $892 and $3,962 per student annually on instruction, significantly less than public and non-profit schools but comparable to community colleges which have significantly lower tuition • overall, devoted less to actual instruction costs (faculty and curriculum) than to either marketing and recruiting or profit • 54% of students who enrolled in 2008-09 had withdrawn by 2010 and 9 companies had Associate degree programs with withdrawal rates over 60 percent • 64% of students attending online programs left without a degree compared to 46 percent of students attending campus-based programs offered by the same companies • among the 15 publicly traded companies, 55% of students departed without a degree compared to 46% of students among the 15 privately held companies examined	• 60% of its faculty were part time employees, meaning that it employed more fulltime faculty than the average • spent $3,969 per student on instruction in 2009, only slightly more than the $3,463 per student it spent on marketing and allocated to profit • 50.5% of students who enrolled in 2008-09 had withdrawn by 2010, having been enrolled a median of just over 3 months before withdrawing • student loan default rate was 36.1% for students entering repayment in 2008, and, at 13 campuses, over 40% of students defaulted • undercover GAO investigation raised serious questions about the academic quality of online programs—few courses featured video or audio lecture components and interaction with teacher limited to text-based chat that required little time or attention from the teacher • GAO also identified several incidents of compromised academic integrity and

	• student loan default rates increased across all 30 companies examined between 2005 (17.5%) and 2008 (22.6%), a 32.6% increase over 4 years and many schools devoted, significant resources to lowering their measured default rates by persuading students at risk of default to enter forbearance or deferment	rigor, such as toleration of blatant plagiarism

Source: 2012 Senate HELP Committee Report
Note: Unless otherwise noted, statistics cited apply to all 30 for-profit schools examined.

C. Allow Students to Start Over at Public and Nonprofit Institutions, Including Those with Online Options

Public-sector institutions, such as community colleges and state universities, are often better quality, and almost always less expensive alternatives to for-profit schools. And, in the past 20 years, they have begun to embrace online education, a major selling point of for-profit institutions, which had carved out a niche in online education.

Ten years ago, there were few public and nonprofit alternatives to online programs at for-profit schools. Many non-traditional, older, and often married students enrolled at for-profits because of the flexibility offered by distance.

Today, however, many well-regarded public and nonprofit schools offer online courses and degrees (see http://www.usnews.com/education/online-education). Although online programs have their own challenges and weaknesses, the prices at public institutions tend to be more reasonable and their management is generally less cynical and more genuinely committed to helping students.

Public School Advantages

- Although both for-profits and community colleges tend to have high student withdrawal rates, the significantly lower tuition at the latter does not burden students who ultimately withdraw with massive student loan debt. For example, only 13 percent of students borrow at community colleges compared to 96 percent at for-profit schools. In addition, public colleges do not actively engage in a business model of “churn” to get student “starts” and federal dollars flowing, the way for-profit colleges do, as documented by the U.S. Senate report.
- Tuition is lower. According to the Senate HELP Committee, Associate and Certificate programs at for-profit schools were four to four and one-half times more expensive than at community colleges and public universities, and 20 percent more expensive for Bachelor’s degrees than at flagship public universities.

- Taxpayer savings are greater because students are less dependent on federal student aid. The lower tuitions at public schools result in less borrowing by students, and, lesser investment by taxpayers through Pell Grants. Public school alternatives also save taxpayer dollars for programs like the GI Bill because it covers in-state tuition, which averages about $8,000 at public institutions, but pays up to $20,000 a year for veterans to attend for-profit colleges.
- Unlike for-profit schools, public-sector institutions are more likely to carry the proper programmatic accreditation and are also more transparent about accreditation and unlikely to mislead students about their ability to obtain the state licenses necessary to turn their degrees into jobs.
- Public colleges do not engage in the "boiler room" call centers where recruiters use pain-based, aggressive, and deceptive recruiting tactics, the way for-profit colleges have been documented to do by the U.S. Senate, undercover U.S. GAO reports, and by multiple federal and state law enforcement actions.
- Public colleges, by definition, do not set aside any revenue for profit, while for-profit colleges set aside almost 20% of revenue for profit.
- Public colleges do not face Wall Street pressure to divert funds away from education. Public colleges generally spend a higher amount than do for-profit colleges on instruction, and spend a far lesser amount on marketing and recruiting. For example, Northern Virginia Community College spends about $4,068 per student per year on instruction and only two-fifths of 1 percent of its budget to marketing, or about $22 per student per year. Similarly, Portland Community College in Oregon spends $5,953 per student per year on instruction, and only about 1.2 percent of its budget, or $185 per student per year, on marketing. Contrast that with for-profit colleges that spend more on marketing per student per year (averaging $2,622) than they spend on instruction ($2,050).
- Public colleges invest in student support services that help students succeed in school and beyond, while for-profit colleges have no career placement staff at all, or extremely minimal career placement services. For example, the University of Phoenix, with a student population of nearly half a million, has no career placement staff at all, but 8,000 recruiters promising the students a terrific career. Bridgepoint-owned Ashford University employs one career placement official for a student population of 77,179 students (as of Fall 2010).
- Public colleges do not divert revenue to lobbying. In 2010, the for-profit industry spent more than $8.1 million lobbying Congress.
- Public colleges do not pay their president's the exorbitant salaries that for-profit institutions pay their CEO's. The U.S. Senate HELP Committee found that the CEOs of the publicly traded, for-profit education companies took home, on average, $7.3 million in 2009. In contrast, the five highest paid leaders of large public universities averaged compensation of $1 million, while the five highest paid leaders at non- profit colleges and universities averaged $3 million.
- Academic quality tends to be better at public colleges. An undercover investigation by the U.S. GAO uncovered extremely poor academic quality at

for-profit colleges, including teachers who accepted photos of celebrities in lieu of essays and teachers who encouraged the students to cheat.

- Public colleges have better professors, with a higher percentage of faculty having advanced degrees and teaching fulltime. The majority of faculty at for-profit colleges consists of part-time and adjunct faculty, rather than full-time faculty. The U.S. Senate report found that 80 percent of for-profit college faculty is part-time. Part time and adjunct professors are less expensive to employ and frequently are hired on a short-term basis to minimize educational costs. Part-time faculty have been linked to higher student withdrawal rates.

Given the President's proposal to use community colleges as a gateway to higher education, the Education Department should get on board with helping students attend community colleges rather than for-profit institutions, particularly when for-profits declare bankrupty or close.

Examples of Online Options at Public and Nonprofit Institutions

- **Community Colleges**. The American Association of Community Colleges estimates that 90 percent of community colleges now offer online options. Some community colleges are using high-quality courses developed by Carnegie Mellon University's "Open Learning Initiative," with support from several major foundations.

- **Western Governors University (WGU).** WGU is a private, nonprofit online college offering competency-based learning; it was founded by the governors of the 19 Western states in 1997. Part of its original mission was to promote the spread and acceptance of competency-based education. A key innovation is WGU's willingness to consider accepting credit from any nationally or regionally accredited institution. Use of a competency-based model allows students to graduate with a Bachelor's degree in 30 months, on average. Tuition is roughly $6,000 a year.

  Serving a non-traditional student base, WGU boasted a 75%retention rate in 2013 – the mirror opposite of the 64 percent dropout rate that the Senate HELP Committee found at the for-profit, online programs it studied. Instead of delivering lectures, WGU faculty—all fulltime—serve as mentors, and are fully engaged in the learning process, leading discussions, and answering questions. In contrast, 80 percent of the faculty at the 30 for-profits examined by the Senate HELP Committee were part time instructors.

  According to a WGU student survey, 95 percent of students reported that they are satisfied with the quality of their education and would recommend WGU to others. In contrast, many students at for-profit institutions feel that they were tricked into attending. Employers are satisfied too. On its 2011 employer survey, 98 percent rated the preparation of WGU graduates as

equal to or better than graduates of other universities and 42 percent rated it superior.

WGU is giving a boost to competency-based education by working with 11 community colleges in 5 states to establish online, hybrid, and brick and mortar programs. This endeavor is supported by funds from the Department of Labor as well as the Gates Foundation. In addition, WGU has partnered with Indiana, Washington, and Texas to create state-chartered versions of its approach.

- **Southern New Hampshire University (SNHU)**. Nonprofit SNHU offers competency-based online degrees. According to the Department of Education, it has a 54 percent, 6-year graduation rate for first time, full time students and 69 percent of students who enrolled in 2012 returned the following year. Enrollment totals about 28,000 students and tuition for the 2013-14 academic year was about $29,000.

- **Arizona State University (ASU)**. ASU has an exclusively online division, which enrolled about 7,500 students in 2014. U.S. News and World Report ranked it as one of the top 10 online Bachelor's degree programs. It's website only provides the cost per credit hour, not the cost of earning a degree. You must speak with an enrollment counselor to obtain data on tuition. However, annual in-state tuition at an ASU brick and mortar campus was about $10,000 for the 2013-14 academic year.

- **Other Public Institutions**. Several other public schools have large online programs, including:

  - University of Maryland University College, which enrolls almost 40,000 students and charges $6,500 annually in tuition.
  - Penn State. In the 2013-14 academic year, it enrolled about 13,000 students. Tuition for 12 or more credits totaled about $7,000 a year. U.S. News & World Report ranked it the best online Bachelor's degree.
  - University of Massachusetts. Almost 50,000 students are enrolled in online programs, compared to about 28,500 student attending its brick and mortar campuses. The website for online programs only lists cost per credit hour, not the cost of earning a degree. However, in-state tuition at a brick and mortar campus was about $13,500 for the 2013-14 academic year.

D. ED Should Take Proactive Steps Now in Anticipation of Future Corinthians

For-profit schools' misleading marketing, predatory recruiting, inflated job placement rates, and other misconduct were well documented in the 2012 Senate HELP Committee report and intense media scrutiny, resulting in numerous investigations, lawsuits, and settlements by state Attorneys General, the SEC, the

FTC, the Justice Department, and the CFPB. In addition, the President issued Executive Order 13607 in April 2012 asking schools that enroll veterans to cease such abuses and to voluntarily comply with a code-of-conduct.

In contrast to the concerted action by AGs, the White House, and some federal agencies, ED has been slow to react to the overwhelming evidence that for-profit schools are more focused on their own profits than on serving students. In effect, ED's lax oversight allowed Corinthian to happen, even though Corinthian's was widely recognized as the poster-child for everything wrong with the for-profit sector. Waiting for the inevitable and then scrambling to minimize student disruptions is not a strategy, particularly given the concern that several other large for-profit schools may be on the brink of bankruptcy.

Rather than waiting for proprietary schools to fail on their own accord, it is imperative that ED take a more proactive, risk-based, student-centered approach to for-profit school abuses. In practical terms, what would a more proactive ED strategy look like?

- **Form alliances with low-cost online alternatives.** ED should acknowledge that predatory for-profits are not the only alternative for the population they purport to serve. Rather, it should negotiate with low-cost community colleges, state universities, and perhaps the more effective and reasonably priced for-profits to accept transfer students from failing for-profits, including agreements on what credits would be accepted. In particular, these contingency plans should focus on online programs. Facilitating student enrollment in low-cost alternatives would reflect an acceptance on the part of ED that in some circumstances it is in the best interests of students and taxpayers to (1) allow predatory for-profits to fail, and (2) provide all students with full financial relief and an opportunity to start over. The alternative is to prop up bad institutions by selling them to questionable new owners and risk wasting billions more in taxpayer and student dollars.
- **Support the activities of its new for-profit oversight committee**. ED should proactively support the activities of the new interagency, for-profit oversight committee it established by executive action last year. For example, the committee could help develop policies for assessing risk and identifying triggers that would initiate an escalating series of actions, such as independent ED-OIG school reviews, the hiring of an independent monitor, or a ban on new enrollments. This committee should also review EDs existing authorities and make recommendations for any additional powers it believes are necessary.
- **Strengthen ED's school program reviews.** In order to focus fraud-prevention efforts where fraud is most likely occurring, ED should undertake "risk-based program reviews," of schools that:
    - currently, or have in recent years, been subject to a state or federal law enforcement action;

  - the U.S. Federal Trade Commission believes has been engaged in misleading practices;
  - have large numbers of student complaints;
  - have high cohort default rates on federal loans;
  - have rapid and dramatically increased enrollment within the last few years;
  - have converted from for-profit to non-profit or vice versa within the last few years; and
  - have more than half of their programs on-line.
- **Systematically enforce ED's existing authorities.** Rather than continuing to drop the ball, ED needs to more robustly enforce its current authorities. Schools often evade the cohort default rate (CDR), the 90/10 rule, and incentive compensation requirements. For example, schools manipulate their Office of Postsecondary identification (OPEID) numbers, consolidating campuses receiving more than 90 percent of their revenue from federal student aid with campuses that are below the 90 percent cap. Or, schools hire contractors to persuade students to sign up for loan deferment or forbearance in order to postpone default beyond the 3-year measurement period. These and other evasive for-profit school tactics were well documented in the Senate HELP Committee's 2012 report. ED should:
  - Make the use of serial forbearances and spikes in defaults after the CDR window closes "triggers" to prompt an immediate investigation into possible CDR evasion, a program review, and/or an audit;
  - Issue guidance to schools on what constitutes proper default management and what constitutes CDR evasion, and on the additional steps the Department is taking to prevent both loan defaults and CDR evasion; and
  - Require continued compliance under former OPEIDs for at least three years after any change in OPEID and sanction any that would have exceeded the CDR thresholds or 90/10 threshold but for the change in OPEID.
- **Create an effective, centralized student complaint system**. Complaint systems are an effective component of every agencies enforcement system, allowing them to identify problems with how companies comply with agency policies and regulations. A centralized complaint system would help ED identify problems with how schools, guarantee agencies, contractors, and other entities treat students. Currently, ED has numerous ways for students and borrowers to file complaints, including the Office of Federal Student Aid, its regional offices, the Ombudsman, and its private student debt collectors. Each entity has different policies and procedures and the department lacks appropriate analytics to report on complaints and track outcomes. CFPB's complaint system as well as the new DOD and VA complaint systems should serve as models for creating a more transparent and effective ED complaint system. ED should closely collaborate with these three agencies rather than trying to reinvent the proverbial wheel.
- **Invest in stronger career education programs**. ED needs to encourage high schools, community colleges, and state schools to make long-term investments in better career education programs.

- **Ban mandatory arbitration.** ED should ban arbitration, nondisclosure, and non-disparagement agreements for employees or students at Title IV-participating institutions because such provisions can block key information from reaching the Department. Remind employees of their rights under any applicable NDAA whistleblower protection provisions, and forbid Title IV-participating institutions from retaliating against students or employees who raise concerns about matters connected to Title IV funds.
- **Red flag notifications on ED websites**. Post "red flags" notices for schools on College Navigator, Net Price Calculators, College Shopping Sheet, and elsewhere if they meet certain criteria, such as:
  - expenditure on instruction is less than half the tuition;
  - fails to post names and qualifications of instructors on its website;
  - does not make available the most recent accreditation self-study and visiting team reports on its website;
  - fails to disclose financial benefits to its own board members or to board members of a parent entity; and
  - is now, or has been in the past 5 years, the subject of state or federal law enforcement investigation or action for deceiving or abusing students or defrauding the government.
- **Combat highly deceptive and outright fraudulent marketing by predatory education companies.** Require any college that spends more than 10 percent of its revenue on advertising, marketing and recruiting to:
  - Report and publish on their websites the percent of revenue spent on instruction as compared to advertising, marketing, recruiting, executive compensation, and profit. ED should also make this data publicly available;
  - Record all recruiting calls and make them available for inspection by the government or third-party education reviewers, and ban recruiting calls from cell phones and on-line chats by lead generators that cannot be recorded for inspectors; and
  - Submit for review by accreditors, government, or third-party education reviewers the institution's recruiting training manuals, videos, and materials to ensure aggressive and misleading tactics do not occur.
- **Better educate students about potential fraud**. ED has an obligation to help students avoid scams and fraud:
  - Give students "Know Before You Enroll" tips, such as those developed by the City of New York and the "8 Questions to Ask When Choosing a College After Military Service" developed by the U.S. Federal Trade Commission.
  - Utilize existing paper forms, websites, trainings, and communications to alert students of the potential for fraud and educate them about how to avoid and report fraud, including through the FAFSA form (consider incorporating College Scorecard and scam alert tips such as the FTC's "8 Questions to Ask" right into the FAFSA form).
  - Alert students to the types of deceptions and abuses that have surfaced in recent law enforcement actions—as a way of warning students.

- **Ensure appropriate program accreditation**. Protect students from being deceived by programs that lack proper accreditation or otherwise leave the students ineligible for the jobs they trained for and were promised by requiring that
    - o Schools, as a condition of institutional accreditation, only offer programs that have any accreditation legally required to participate or be licensed to work in that occupation, or typically required by employers in that field in the Metropolitan Statistical Area in which the student lives.
- **Increase transparency for consumers and enable non-governmental watchdogs to monitor schools and help uncover fraud.** In order to improve transparency and help uncover fraud, ED should:
    - o Disclose 5-year CDR and repayment rates by institution;
    - o Make public (posting online) more of the data and documents that ED already collects, including colleges' required financial statements and applications for federal funds, all program participation agreements, compliance audits, warning letters, and all the reports schools submit to the Department, such as their default management plans; and
    - o Publish salary data for executives and profit data for owners/shareholders at the colleges, and add these data to the Scorecard and other ED student tools.

Congress also has a role to play in mitigating the risk of future Corinthians.

- **90/10**. Congress needs to close the loophole that effectively makes our military a target of for-profit college recruiters. By law, for-profit schools can't receive more than 90 percent of their revenue from federal student aid, a statutory effort to ensure some modicum of quality by forcing schools to be good enough to attract private revenue. However, the GI Bill and Defense Department student aid were overlooked and inadvertently left out of the law when it was written two decades ago. The President's FY2016 budget includes a proposal to close this loophole and Senators Carper, Harkin, and Durbin introduced similar proposals in the 113th Congress.
- **Marketing restrictions**. Many of the for-profit schools profiled in the 2012 Senate HELP Committee report earned 80 percent to 90 percent of their revenue from taxpayer dollars and allocated an average of almost 25 percent of their revenue to marketing and recruiting. Congress should prohibit for-profit schools from using taxpayer dollars to lure individuals into enrolling in overpriced and low-quality programs.
- **Program accreditation.** Some programs offered by for-profit schools lack the appropriate accreditation necessary for graduates obtain the state license required to find a job. Last year, Congress prohibited the use of DOD Tuition Assistance funds for unaccredited programs of study. Congress should enact a similar provision for GI Bill educational benefits.