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California Context for Corinthian Colleges Closure

LEGISLATIVE ANALYST'S OFFICE

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Economic Development
Hon. Jerry Hill, Chair

Senate Committee on Education
Hon. Carol Liu, Chair





Oversight of Private Colleges in California

Regulatory Triad



Three Entities Oversee Higher Education in United States

- **Federal Department of Education.** Sets standards for institutions participating in federal student financial aid programs.
- **Accreditors.** Primary focus is educational quality.
 - Accreditors also review institutions' financial, administrative, and business practices to varying extents, depending on type of accreditor.
- **States.** Main role is to protect students from unfair business practices.
 - States also are responsible for educational quality but often rely on accreditation to certify quality.
 - For unaccredited schools, states are sole oversight bodies to ensure educational quality, financial and administrative capacity, fair practices, and student protection.



Federal Role



Department of Education Sets Minimum Standards for Institutions Participating in Federal Aid Programs

- Must be accredited by a federally recognized accreditation agency, and beginning July 2015, approved by state(s) where campuses are located and subject to state complaint review and resolution processes.
- Must meet various measures of financial responsibility (such as minimum reserve and equity ratios) and administrative capability (such as administrative resources to provide educational programs and manage student aid funds).
- May receive no more than 90 percent of total revenues from federal student aid programs (for-profit institutions only). Veterans' educational benefits are excluded.
- No more than 30 percent to 40 percent of students may default on federal student loans within specified time periods.
- For vocational programs, graduates' median annual loan payments may not exceed 20 percent of graduates' average or median discretionary income or 8 percent of their average or median total earnings.



Department Provides Relief for Students of Closed Schools

- Students enrolled at the time of closure (or who withdrew within previous 120 days) who could not complete their programs may be eligible for federal student loan discharge.
- Students are ineligible for loan discharge if they completed their programs, benefited from a "teach-out" agreement (whereby the student can complete his or her program through another school), or transferred credits to a similar program.



Federal Role

(Continued)



Department Provides Relief for Additional Students in Certain Situations

- Federal law permits the department to discharge loans of students who were defrauded by their schools. This provision, called “defense against repayment,” has rarely been used.
- Students who were no longer enrolled at the time of school closure—including those who completed their programs—may apply for loan discharge under this provision.
- Department is currently accepting individual applications and facing pressure to more broadly discharge loans under this provision for former Corinthian students.



Accreditation



Two Types of Accreditation:

- Regional (for example, Western Association of Schools and Colleges, or WASC).
- National (for example, Accrediting Commission of Career Schools and Colleges).



Accreditation Is Self-Policing

- Accreditors are voluntary, nongovernmental membership associations governed by institutions (members) they accredit.
- Characterized by peer review to enforce minimum educational quality standards and promote best practices and continuous improvement.
- Work with schools, not students.



Accreditors Require Schools to Have Closure Policies

- Teach-out policies, transcript availability, and transfer of records.



California's Regulatory Framework



Governed by Private Postsecondary Education Act

- Chapter 310, Statutes of 2009 (AB 48, Portantino).
- Goals are ensuring minimum education quality standards, providing meaningful student protections and school oversight, and preventing public deception.
- Reconstituted Bureau for Private Postsecondary Education (Bureau) to:
 - License institutions and programs meeting minimum standards.
 - Monitor fair business practices.
 - Resolve student complaints.



State Maintains Student Tuition Recovery Fund (STRF)

- Supported by fees collected from each student at regulated schools. Recently, the fee was 50 cents per \$1,000 of institutional charges.
- State law caps balance at \$25 million but current balance exceeds cap. As a result, Bureau reduced STRF fee to zero effective January 1, 2015.



Requirements for Orderly Closure

- Act requires 30-day notice of intent to close.
- Act also requires:
 - Plans for teach-out, transfer of student records.
 - Arrangements for refunds to students who do not receive teach-out.



California's Regulatory Framework

(Continued)



Bureau Provides Relief for Students of Closed Schools.

- STRF reimburses “economic loss” for California residents enrolled in eligible institutions at time of closure.
- Economic loss includes a student’s tuition, cost of required equipment and materials, and interest on student loan debt used to pay those charges. It does not include supplies, living expenses, or damages such emotional distress.
- Act requires Bureau to establish regulations providing relief for a student who suffers a loss of educational opportunity and whose charges were paid by a third party, such as an employer or a financial aid program (including federal Pell Grants and state Cal Grants).



Regionally Accredited Schools Exempt From Bureau Oversight

- WASC-accredited schools (includes Heald College) exempt.
- Schools under other regional accreditors (such as Strayer University and Culinary Institute of America, both accredited by the Middle States Commission on Higher Education) exempt except they must contribute to STRF.
- All schools, whether or not exempt, must follow school closure rules.
- Beginning January 1, 2016, for-profit institutions participating in veterans’ financial aid programs may not claim exemption.
- Otherwise exempt schools may voluntarily seek Bureau approval, forfeiting their exemptions. Many regionally accredited for-profit schools—including DeVry, Argosy, Ashford, and Walden Universities and University of Phoenix—have done so to meet federal “state authorization” requirements that take effect July 1, 2015.



State Financial Aid and Private Postsecondary Schools



Students May Use Awards at Any Eligible Public or Private Institution

- To qualify, a school must meet federal financial aid standards, report outcome data to Student Aid Commission, and meet two performance thresholds:
 - Graduation rate above 20 percent (30 percent effective 2017-18).
 - Federal student loan default rate below 15.5 percent.



Implementation of New Thresholds in 2011 and 2012 Reduced Number of Eligible Schools

- More than 80 percent of for-profit schools deemed ineligible in 2012.
- Since then, some schools have regained eligibility while others remain ineligible.
 - Two Heald Colleges became ineligible in 2011. All were ineligible in 2012. Four regained eligibility in 2013 and the rest in 2014.
 - All Everest Colleges have been ineligible since 2011.
 - Both WyoTech schools have been ineligible since 2011.



Recent History: How Did We Get Here?

Timeline of Key Events Leading Up To Corinthian Colleges Closure

1995	Corinthian Colleges Inc. founded. Goes public in 1999.
2002	Corinthian acquires 36-year-old Wyoming Technical Institute (WyoTech).
2004	OAG begins investigating Corinthian's job placement rates, programs, and business practices.
2007	OAG and Corinthian reach settlement including \$6.5 million in refunds, \$700,000 in penalties, closing of 11 substandard programs, and ban on misrepresentation and other unlawful practices.
2007	Corinthian consolidates several acquisitions into Everest College.
2007	Private equity investors acquire 150-year-old Heald chain, convert it to for-profit.
2010	Corinthian acquires Heald College.
2010	Government Accountability Office undercover investigation shows fraudulent and deceptive recruiting practices at several for-profit colleges.
2011, 2012	State tightens Cal Grant eligibility. Corinthian schools lose eligibility due to high student loan default rates. (Heald campuses later regain eligibility).
Jul. 2012	Congressional investigation documents predatory practices, poor student outcomes, and high student debt at for-profit colleges. Spurs push for tougher regulation.
Oct. 2013	OAG sues Corinthian for misrepresenting job placement rates to students and investors and engaging in other unlawful business practices.
Jun. 2014	Following investigation of job placement rates and various business practices, USED suspends Corinthian's access to student aid funds, creating cash flow crisis.
Jun. 2014	CalVet suspends GI Bill benefits for veterans at Corinthian schools.
Jul. 2014	USED and Corinthian finalize agreement to sell or close campuses over six months. USED restores access to student aid funds to facilitate orderly wind-down.
Sep. 2014	Federal Consumer Financial Protection Bureau sues Corinthian over private loan program, alleging misrepresentation, predatory interest, and strong-arm collection tactics.
Feb. 3, 2015	Corinthian sells most non-California campuses (53 Everests and Wyotechs) to ECMC.
Feb. 13, 2015	California Student Aid Commission suspends Cal Grant Payments to Heald.
Apr. 14, 2015	USED fines Heald \$30 million for misrepresenting job placements, halts new enrollment.
Apr. 23, 2015	BPPE orders California Everest and WyoTech campuses to stop enrolling students.
Apr. 27, 2015	Corinthian announces immediate closure of Heald, Everest, and WyoTech locations.
May 4, 2015	Corinthian files for Chapter 11 bankruptcy protection.

OAG = California Office of the Attorney General; USED = United States Department of Education; CalVet = California Department of Veterans Affairs; ECMC = Education Credit Management Corporation; and BPPE = California Bureau for Private Postsecondary Education.



All Corinthian Colleges Closed Effective April 27, 2015

Corinthian Colleges in California: Key Facts

	Heald College	Everest	WyoTech
California campuses	10	11	2
California students (April 2015)	5,731	3,150	950
Cal Grant recipients (Spring 2015)	2,058 (\$3.4 Million)	Not eligible	Not eligible
Programs offered	Business, legal, healthcare, IT	Business, legal, healthcare, IT, criminal justice, trades	Automotive, trades, healthcare
Degrees offered	Mostly AD, few C	Mostly C, some AD, few BA	Mostly C, few AD
Graduation rates by campus ^a	30% - 52%	46% - 82%	65% - 69%
Student loan default rates by campus ^b	10.1%	18.5% - 26.5%	24.5% - 24.7%
Federal student loan borrowers by campus ^a	76% - 83%	49% - 82%	55% - 56%
Institutional accreditation	WASC	ACCSC or ACICS	ACCSC
Regulated by BPPE	Exempt	Yes	Yes
Student Tuition Recovery Fund ^c	Not eligible	Eligible	Eligible
Federal loan discharge	Eligible	Eligible	Eligible

^a 2012-13 academic year.

^b Three-year cohort default rate for students entering repayment in 2011.

^c Students at institutions that pay into the fund are eligible to receive associated benefits.

IT = information technology; AD = associate degree; BA = bachelor's degree; C = certificate or diploma; WASC = Western Association for Schools and Colleges (regional accreditor); ACCSC = Accrediting Commission of Career Schools and Colleges (national accreditor); ACICS = Accrediting Council for Independent Schools and Colleges (national accreditor); and BPPE = Bureau for Private Postsecondary Education.



Implications for California Students and State

- Closure Affects More Than 10,000 Students**
- State, Federal, and Private Agencies Offering Assistance**
 - Bureau, Attorney General, Student Aid Commission, federal Department of Education, higher education institutions, and legal aid organizations reaching out to former Corinthian students with information, referrals, and assistance.
- Students at Closed Schools Eligible for Financial Relief**
 - STRF reimbursement for economic loss.
 - Federal student loan discharge.
- Students With Private Loans Face Greater Uncertainty**
 - No standard discharge provisions.
 - Payments are subject to requirements of lenders.
 - STRF may reimburse students for interest and penalties on loans used to pay tuition and required charges.
- Regulations on Loss of Educational Opportunity Proposed**
 - Draft Bureau regulations would allow Bureau to pay tuition and fees at another school for a student whose charges were paid by a third party (including a financial aid program) and who suffered a loss of educational opportunity as a result of a school closure.



Implications for California Students and State

(Continued)

- Closures Affect About 2,000 Corinthian Employees**
- Other Large For-Profit School Closures Could Follow**
 - Several other large, publicly traded colleges are under similar regulatory, financial, and legal pressure.
 - Enrollment, revenues, and financial outlook of for-profit colleges has declined in recent years.
 - Tougher federal regulations and efforts to include veterans' education benefits in 90 percent limit on share of revenues from federal student aid further threaten viability of aid-dependent for-profit colleges.
- Additional Information Needed on Extent of Problem, Potential Solutions**
 - Census of California students recently enrolled in Corinthian schools.
 - Credits completed and remaining for students in various educational programs.
 - Acceptance of transfer credits at other institutions.
 - Potential roles for other regulatory boards and bureaus.
 - Status of federal loan discharge efforts.