

To: Negotiators
From: Ann Bowers, Student Negotiator
Date: 2/14/2016
Re: Overview of current investigations of fraud and numbers of students impacted.

As I write this memo, it is the one year anniversary of the student debt strike that I began, along with fourteen other brave student loan borrowers, in order to take a public stand against repaying federal student loans given the fraud we had experienced at our schools. I am one of the original "Corinthian 15," although we now number in the hundreds. Over the last year we have been joined by over 5,000 defrauded students who submitted claims to get debt relief through the Department of Education's Defense to Repayment laws. Before our collective action to get defrauded borrowers in communication with the Department, there had only been five claims.

Given the numbers of student victims I am in touch with every day, I feel compelled to update fellow negotiators about the vastness of the problem, and the sheer volume of students who have been touched by the problem. I ask that you keep these situations and students in mind as you consider what makes a fair and generous standard and process for defrauded student loan borrowers. For us, the most crucial element of the process is that it enables class wide discharge. The individual filing process will simply be too cumbersome and too slow to deliver the relief necessary under the circumstances. Additionally, we can anticipate students who were harmed by their schools in the past but were under the impression that they had no way to dispute the school or their debt to come forward and file for relief, and I believe strongly that these students should not be shut out of the process simply because they were unaware of their rights.

I will start with the school that has become the touchstone for our discussions, Corinthian Colleges. The catastrophic failure of Corinthian Colleges, a for-profit company that operated the Wyotech, Heald, and Everest College brands, was the impetus for this rulemaking. In April 2015, it went bankrupt after the Department of Education withheld students' federal aid dollars to the schools for falsifying its job placement rates. At its height, the schools enrolled over 100,000 students. State Attorneys General from Massachusetts, California, Connecticut, Illinois, Kentucky, New Mexico, Oregon, and Washington, along with the federal Consumer Financial Protection Bureau requested that the Corinthian debtors have their federal loans forgiven given the evidence of fraud that had been uncovered by these agencies.

Beyond Corinthian, there are approximately two dozen for-profit schools also being investigated. Here are a few more high profile schools that are under investigation by state Attorneys General, the Department of Education, the Federal Trade Commission, and the Consumer Financial Protection Bureau, along with the approximate number of campuses and the approximate number of students that could be affected if these schools follow in Corinthian's path. Obviously, if fraud is found at these schools, and each student borrower were to apply for a defense to repayment, then it adds up to an extreme number of claims to process individually. In addition, if a school is found to be a bad actor currently, then it could have been a bad actor in the past, and those student debtors from the past need a path to relief as well.

- ITT Tech: 112 campuses and 200,000 students. Under investigation or being sued by 19 state attorneys general, Consumer Finance Protection Bureau, Education Department for fraud; misleading students on salaries & job placement; misleading investors, pressuring students into high interest loans, etc..
- DeVry: 50,000 students. The Federal Trade Commission and the Department of Education are investigating DeVry for misleading students on graduates' salary and career placement including through false marketing claims.
- Education Management Corporation, operating the Art Institutes, Argosy University, Brown Mackey College, and South University brands; 110 locations, 32 states, 100,000 students. Under investigation by Education Department and numerous state Attorneys General for

high-pressure enrollment tactics, false numbers reported to the government, false certification, misleading students regarding salaries and job placement rates upon graduation, etc..

- University of Phoenix: 29 locations, 17 states, approximately 200,000 students (600,000 students in 2010). Under investigation by the Justice Department, Education Department, Department of Defense, Federal Trade Commission, and many state Attorneys General for deceptive and aggressive enrollment tactics, illegal use of military logo in advertisements and recruiting material., etc.

Next I am including an article from *Inside Higher Ed* regarding the Department of Education's list of schools that have been placed on Heightened Cash Monitoring 2. These are schools that are being put in the 'caution spotlight' for their higher risk financial or compliance issues, and these serve a tremendous array of students. As the article notes, for-profits dominate the list.

Cash Monitoring List Unveiled

March 31, 2015 [Michael Stratford](#)

WASHINGTON -- The U.S. Department of Education on Tuesday, for the first time, named most of the hundreds of colleges whose federal aid it has restricted because of concerns about their finances or compliance with federal requirements.

The department released a [partial list](#) of the nearly 560 institutions that, as of March 1, were subject to the financial restrictions known as heightened cash monitoring. Most of the colleges -- 487 institutions -- were on the lower level of scrutiny, and 69 were subject to the higher, more stringent restrictions.

"We feel that by issuing this list today we're doing what's right for good government and transparency's sake," said Ted Mitchell, the under secretary of education.

The department continued to keep secret the identities of 21 of the 69 colleges that it placed on the highest level of monitoring, which means that department employees manually approve every dollar that flows to an institution.

Nearly all of those unidentified colleges were on that status because a federal audit of the institution resulted in "severe findings."

"We have ongoing investigations at each of those institutions and we fear that, at this point, releasing those names would impede the progress of our investigation," Mitchell said in an interview. He said the names of those colleges would eventually be released as the investigations are completed.

'A Caution Light'

Mitchell said that colleges may be placed on either form of cash monitoring for a range of reasons, some of which are more serious than others.

The department, for example, may impose the sanction on a college for submitting its financial statements late. That appears to have been the case for 43 public colleges and universities in Minnesota, all of which were on cash monitoring with the designation of "audit late/missing."

At the other extreme, a college may land on cash monitoring because of serious concerns about its financial viability. Roxbury Community College, in Massachusetts, for instance, is on cash monitoring because of concerns about its "administrative capacity." The college [released](#) a report in 2013 that showed, among other things, that administrators had lost track of significant amounts of money.

A college being on the list “is not necessarily a red flag to students and taxpayers, but it can serve as a caution light,” Mitchell wrote in a blog post. “It means we are watching these institutions more closely to ensure that institutions are using federal student aid in a way that is accountable to both students and taxpayers.”

New Transparency Step

Before releasing the names of the institutions on cash monitoring Tuesday, the department had fought to keep the information secret. As recently as last week, the department [said](#) that disclosing the list was likely to result in a “substantial competitive injury” for colleges operating in a competitive marketplace.

The department [reversed its position](#) late last week after *Inside Higher Ed* [reported](#) that the cash monitoring information was largely being kept hidden from public view.

When *Inside Higher Ed* first requested the cash monitoring list last summer, the department denied the request and claimed that it [did not keep such a list](#).

Going forward the department plans to publish the cash monitoring list online and update it on an ongoing basis, but it hasn’t yet decided how frequently, Mitchell said.

Varying Levels of Scrutiny

Many of the colleges on the lower level of monitoring, which typically places a several-day delay on colleges’ federal funding, are placed there automatically because they fail the department’s standards of financial responsibility.

Colleges and the groups that represent them have long complained that the methodology of those scores is out of date and [doesn’t accurately reflect an institution’s financial health](#).

"A lot of financially healthy institutions can find themselves on HCM1, for any number of minor reasons," said Terry Hartle, senior vice president for government and public affairs at the American Council on Education. "HCM2 is a more serious problem, and institutions that are on there probably merit a close look."

Hartle said that although the department is rightly trying to make sure colleges have the financial and administrative capacity to receive federal funding, officials have not been clear about how they use the cash monitoring sanctions. "What institutions do to end up in that circumstance is not always clear," he said. "Because they're now making it public, the stakes are much higher, and the need for more disclosure and transparency by the department has increased."

For-Profits Dominate List

For-profit colleges made up more than half of the institutions on each level of heightened cash monitoring. Of the 487 colleges facing the lower level of scrutiny, mostly for failing the department’s financial responsibility test, 290 were for-profit institutions. Similarly, for-profit institutions represented 39 of 69 colleges facing the more stringent restrictions.

Many smaller for-profit beauty, barber and cosmetology schools faced the highest level of monitoring, for a variety of reasons, including accreditation problems, high default rates and severe audit findings.

Large for-profit college chains also have some colleges on the list, such as [Corinthian Colleges](#), [ITT Educational Services](#), Education Management Corporation, and Career Education Corporation, including several of its Le Cordon Bleu campuses that are [up for sale](#). Those publicly-traded companies had all previously disclosed their status to investors. *(An earlier version of this paragraph incorrectly suggested that only some of these companies had told investors of their cash monitoring status.)*

Noah Black, a spokesman for the Association of Private Sector Colleges and Universities, said in response to the department’s release of the list that students "would benefit greatly not from another disclosure, but from clear, direct and accurate information."

He pointed to the “wealth of information that currently exists” on the department’s website, including various data points about colleges and universities that are collected and published by the government.

Trace Urdan, a senior analyst at Wells Fargo who focuses on for-profit education companies, said in a note to clients that the public disclosure of the list wouldn’t have a huge impact on stock prices. But, he said, the list “could have the effect of discouraging enrollment at named institutions, thereby exacerbating their enrollment challenges.” He also said that there is “a strong likelihood that state regulators could demand disclosure of the sanction to prospective students, and/or impose their own sanctions on named schools.”

Breakdown by Sector | Create infographics

Institutions on Heightened Cash Monitoring 2:

Name	City, State	Type	Reason
Arkansas Baptist College	Little Rock, Ark.	Private, Nonprofit	Administrative Capability
JRMC School of Nursing	Pine Bluff, Ark.	Private, Nonprofit	Audit -- Severe Findings
Asian-American International Beauty College	Westminster, Calif.	Proprietary	Accreditation Problems
David's Academy of Beauty	Pico Rivera, Calif.	Proprietary	Accreditation Problems
Community Christian College	Redlands, Calif.	Private, Nonprofit	Accreditation Problems
Galaxy Medical College	North Hollywood, Calif.	Proprietary	Accreditation Problems
Southern California University SOMA	Los Angeles, Calif.	Proprietary	Accreditation Problems
Real Barbers College (The)	Anaheim, Calif.	Proprietary	Accreditation Problems

California Career School	Anaheim, Calif.	Proprietary	Audit Late/Missing
American Beauty College	West Covina, Calif.	Proprietary	Other -- CIO Problems (Eligibility)
Potomac College	Washington, D.C.	Proprietary	Administrative Capability
SAE Institute of Technology -- Miami	North Miami Beach, Fla.	Proprietary	Administrative Capability
Ultrasound Medical Institute	Lantana, Fla.	Proprietary	Audit Late/Missing
Academy of Healing Arts, Massage & Facial Skin Care	Lake Worth, Fla.	Proprietary	Other -- CIO Problems (Eligibility)
Atlanta Beauty & Barber Academy	Doraville, Ga.	Proprietary	Accreditation Problems
American College of Hairstyling -- Cedar Rapids	Cedar Rapids, Iowa	Proprietary	Audit Late/Missing
American College of Hairstyling -- Des Moines	Des Moines	Proprietary	Audit Late/Missing
Larry's Barber College	Chicago	Proprietary	Audit Late/Missing
Masters of Cosmetology College	Fort Wayne, Ind.	Proprietary	Administrative Capability
Collins School of Cosmetology	Middlesboro, Ky.	Proprietary	Accreditation Problems

Roxbury Community College	Boston	Public	Administrative Capability
International Beauty School	Cumberland, Md.	Proprietary	Accreditation Problems
Sojourner-Douglass College	Baltimore	Private, Nonprofit	Accreditation Problems
Missouri School of Barbering & Hairstyling -- St. Louis	Florissant, Mo.	Proprietary	Audit Late/Missing
eClips School of Cosmetology and Barbering	Cape Girardeau, Mo.	Proprietary	Default Rate
Fort Berthold Community College	New Town, N.D.	Public	Payment Method Changed
Little Priest Tribal College	Winnebago, Neb.	Private, Nonprofit	Administrative Capability
Total Image Beauty Academy	Union City, N.J.	Proprietary	Financial Responsibility
Bramson ORT College	Forest Hills, N.Y.	Private, Nonprofit	Accreditation Problems
Rabbinical Seminary of America	Flushing, N.Y.	Private, Nonprofit	Audit Late/Missing
Joffrey Ballet School, American Ballet Center	New York, N.Y.	Proprietary	Audit Late/Missing

Yeshiva Shaar Hatorah	Richmond Hill, N.Y.	Private, Nonprofit	F/S Late/Missing
Saint James Mercy Hospital School of Radiologic Sciences	Hornell, N.Y.	Private, Nonprofit	Financial Responsibility
VEEB Nassau County School of Practical Nursing	Uniondale, N.Y.	Public	Financial Responsibility
Ohio Mid-Western College	Cincinnati	Private, Nonprofit	Financial Responsibility
Institute of Therapeutic Massage	Lima, Ohio	Proprietary	Outstanding Liability/Offset
CC's Cosmetology College	Tulsa, Okla.	Proprietary	Program Review
Citizens School of Nursing	New Kensington, Penn.	Private, Nonprofit	Other -- CIO Problems (Eligibility)
Western Pennsylvania Hospital School of Nursing	Pittsburgh	Private, Nonprofit	Other -- CIO Problems (Eligibility)
Nashville Barber and Style Academy	Nashville	Proprietary	Administrative Capability
Shear Academy	Crossville, Tenn.	Proprietary	Audit -- Severe Findings
Texas Beauty College	Haltom City, Tex.	Proprietary	Accreditation Problems

(The department declined to name an additional 21 colleges that were subject to heightened cash monitoring 2.)

In summary, I ask negotiators to recognize the breadth and depth of the problem and to design a standard and a process that fits the crime. Defrauded students need a group discharge process, and they need a standard and process that is retroactive.