Amid fraud investigations in twenty states

For-profit education chain Corinthian College implodes

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Corinthian College Inc. (CCI), one of the largest for-profit college and technical training schools in the US, has cut a deal with the Obama administration to sell 85 of its campuses and shut down 12 others. The publicly-traded company has 72,000 students and 12,000 employees in more than 25 states and Canada which will be affected.

The forced sell-off amounts to the largest collapse in the for-profit education industry to date. Reports indicate the following campuses are slated to close: Bensalem PA, Chelsea MA, St. Louis MO, McLean VA, Silver Springs MD, Salt Lake City UT (Main Campus), Fort Worth TX, Cross Lanes WV (Main Campus), Eagan MN, Grand Rapids MI (Main Campus), Kalamazoo MI and Merrillville IN.

The immediate cause of the selloff was the Department of Education's (DOE) demand for CCI documents regarding job placement among graduates. When the school failed to produce their statistics, the DOE imposed a 21-day waiting period for the company to draw on federal student aid funds.

The DOE action, together with the reintroduction of "gainful employment" regulations, are largely pre-Congressional midterm election public relations moves designed to camouflage the administration's abandonment of its election promises to clean up the palpable exploitation and illegality rampant among for-profit colleges.

Faced with the federal measures, Corinthian announced it might close last week. Not uncharacteristically, the Obama administration responded with an immediate $16 million life preserver, with a total of $35 million pledged in the form of accelerated financial aid payments. The government move was unprecedented, and some have likened it to a bank-style bailout. Majority stock in Corinthian is, in fact, held by the bank Wells Fargo.

Additionally, if Corinthian simply shut down, close to $1 billion in student loan debt—held by the federal government—could have been potentially discharged under federal rules.

Frankly, the big question is not why Corinthian—a thoroughly disreputable and wildly expensive educational institution—is closing, but why it managed to operate so long, at taxpayer expense. Corinthian receives $1.4 billion in Pell grants and federal student loans each year, which represents at least 85 percent of total revenues.

CCI is presently under investigation by 20 states, the Securities and Exchange Commission, the Consumer Financial Protection Bureau and the Justice Department. Dozens of students have filed lawsuits or demands for arbitration and two attorneys general (California and Massachusetts) have sued Corinthian for a series of unlawful and fraudulent practices. Florida, for example, listed 100 pages of complaints filed by students and employees which are being investigated. Some of these legal actions go back as far as a decade.

Founded in 1995, Corinthian went public in 1999. It owns the Everest College, Heald and WyoTech career schools as well as an online division. Its programs include various technical fields including: medical assistants, medical insurance billing, licensed practical nursing, HVAC, computer technology, pharmacy tech, associate degrees in criminal justice or paralegal fields.

Lawsuits in the various cases and complaints present documentary evidence of a range of legal, financial and ethical violations by the management, including:

* **Deceptive marketing: lying about its training program and job placement rates** in order to increase profits. The California complaint states "the placement rates published by [Corinthian] are at times as high as 100 percent, leading prospective students to believe that if they graduate they will get a job. These placement rates are false and not supported by the data. In some cases there is no evidence that a single student in a program obtained a job during the time frame specified in the disclosures." In some instances, the suit says, Corinthian paid temp agencies to give its graduates short-lived jobs—so it could inflate the job placement numbers

* **Pushing students into high-interest subprime loans**, knowing that half would default. Corinthian began its own institutional loan program in 2008 after private lenders exited the high-risk market. These non-federal loans were designed to keep the school in compliance with the "90/10 Rule," a government requirement that colleges do not receive more than 90% of their total revenue from federal financial aid. In an investor call, company officials admitted that they expected a default rate of at least 50 percent on these loans, which can charge up to 18 percent interest, according to media sources. Meanwhile, CCI charged loan origination fees, servicer fees and interest on outstanding loan amounts.

* **Deliberately preying on those "on the edge of poverty"** including, according to Corinthian College internal documents, low-income single parents or people who seem "isolated," with "low self-esteem" and who have "few people in their lives who care about them."

Even within the notoriously rapacious for-profit industry, Corinthian tuition charges are extremely high, four or more times more expensive than community college programs. Most of its students are from lower-income brackets and a majority are minorities. The overall statistics for the largest for-profits show that one out of two students leaves without a diploma or certificate.

* **Misrepresenting course offerings and available programs** (bait

and switch) and then harassing students to register. As one student noted "[the recruiter] called me every day at any time during the day or night to tell me that a car[eer] will change my life" as noted in the Massachusetts complaint.

* **Poor instruction and misleading students about expected earnings** potential as a result of certificates.

While much of the evidence of poor instruction is anecdotal, a two-year congressional investigation of the for-profits, released in 2012, showed 67 percent of Corinthian associate degree students leaving the program without completion, among the highest of any similar company. Also looking at instruction based on its funding, the report noted Corinthian spent $3,969 per student on instruction, compared to $2,465 on marketing and $998 on profit.

The legal complaint filed in Massachusetts says students were told medical assistants start at $17 or $18 an hour, another was told $21 to $22 an hour, while the actual average wage in the field is $14 an hour.

* **Enrolling students knowing that they would be unable to obtain employment** in their fields of study due to criminal backgrounds, inability to speak or understand English, or lack of high school diplomas, as stated in the brief filed by Massachusetts. One student reported that Corinthian provided her with correct answers to ensure that she passed a test intended to measure her ability to benefit from the program. Corinthian also allegedly told prospective students that Everest credits transfer to any accredited school, when, in fact, few schools accept credits from Corinthian's Everest campuses.

Former Everest librarian Laurie McConnell says she resigned in protest from one of its California campuses last month, after the school enrolled a 37-year-old developmentally disabled man who suffers from shakes, has difficulty speaking, and reads at an elementary school level. He's pursuing a criminal justice degree with hopes of becoming a police officer. McConnell added that the man did not even have a driver's license and could not understand the loan documents he was asked to sign.

The fraud and double-dealing of CCI, of course, has another side—those who have benefited handsomely from the sale of education. There are the wildly paid executives— CCI CEO Jack Massimino, for example, took home over $3 million in compensation in 2013, according to *Forbes*. The top five earners drew $12.6 million in 2010.

Behind corrupt individuals, however, stand the real culprits, the financial industry. Among CCI's 108 institutional stockholders, the largest is Wells Fargo, a bank, followed by a whole series of hedge funds, including Shah Capital Management, FMR LLC, Dimensional Fund Advisors, Vanguard Group and Blackrock. According to a congressional report, profits increased eleven-fold at Corinthian between 2007 and 2010, growing to $240.8 million.

Desmond Summers, a student at Everest College in Southfield,Michigan, told the WSWS, "I think they are just trying to get more money—the costs of tuition, student loans and books. I think it's ridiculous, it shouldn't be so high a cost to get an education."

The medical assistant program in Southfield costs $17,506 for tuition and fees and $1,972 for books and supplies. The program is designed to take 41 weeks, but only 40 percent of students are able to graduate in that time, according to the Everest web site. To complete such a program at a nearby community college involves less than a quarter of these costs.

Desmond was shocked to learn that while he was taking on student loans, the CEO of Corinthian was making $3 million a year. "They're taking education from students. It's all about their money," he concluded.

The growth of this industry has not been the result simply of a free hand given to semi-criminal profiteers. It has been the defunding of public education that has created a growing market for students in technical fields. The huge decline in trades programs offered by cash-strapped high schools, together with budget cuts to adult education and community colleges, has led to a growing number of students desperate for training or retraining for jobs.

Students in the Southfield Information Technology program told this reporter that they had heard the chain may be closing and had been trying to get the truth from teachers and the administration. "Teachers gave us the corporate spin. We're intelligent students and we got a circus story that there was nothing to worry about."

The students were particularly angry that they had not gotten real hands-on training at Everest, specifically to learn how to assemble a computer. "We are getting simulator labs, YouTube videos and movies with bad actors. A movie is not teaching me, I can do that at home," said one young man.

"They told us Everest would change our lives, but nothing has changed. All we get is excuses and lies," another concluded bitterly.

The demise of Corinthian may be just the tip of the iceberg. On July 3, it was reported that another major player in the for-profit college industry, ITT Educational Services Inc., with 57,000 students, may lose some of its federal funding and face heightened scrutiny from regulators as a result of missing similar compliance audit paperwork with the DOE.

ITT's tack for overcoming the "90/10 Rule," according to the *New York Times*, consisted of providing loans with zero interest rates to first-year students, calling them a "temporary credit." When students were unable to repay the loans within one year, ITT forced them to take out loans at rates as high as 16.25 percent. The company is facing a suit from the Consumer Financial Protection Bureau for predatory lending.