

Obama administration arranges deal

Collection agency buys Corinthian Colleges chain

Nancy Hanover
11 March 2015

In the first transaction of its kind, the bulk of the for-profit career college chain Corinthian Colleges, Inc. (CCI) was purchased last month by a student loan guarantor/collection agency.

The Obama administration's Department of Education (DOE) engineered the agreement in order to maintain the flow of student loan repayments by Corinthian borrowers to the federal government.

Over the last year, CCI had been kept in operation by the administration while it found a buyer. In July, the government provided a \$16 million life preserver and agreed to \$35 million in the form of accelerated financial aid payments, to keep the firm afloat.

The once highly profitable institution—one of the largest for-profit colleges in the US—faced criminal allegations by three federal agencies and nearly half the states' attorney generals. The chain was accused of predatory lending and unlawful business practices throughout the US and became emblematic of the often-alleged usurious practices of the for-profit college industry.

Under a CCI program known as "Genesis" loans, students were saddled with loan origination fees as high as 6 percent and interest rates as high as 15 percent, compared to 3 percent and 7 percent, respectively, at many other student lenders.

Fifty-three of the technical college campuses, which include Everest and WyoTech schools across the US, were acquired February 4 by ECMC Group. ECMC includes Educational Credit Management Corporation, one of the largest student loan guaranty agencies in the US, and Premier Credit of North America, a debt collection agency that collects student loans on US Department of Education loans. The Group will also

supervise the shutdown of another 12 campuses it did not buy.

The merged business will now operate education services—alleged in lawsuits to be cut-rate, shoddy and deceptively packaged—in combination with its in-house collection agency.

Neither ECMC nor its newly created Zenith Education Group has any previous experience in operating an academic institution. Zenith will pay \$24 million for 53 of the campuses in 17 states and the rights to the online operation.

ECMC does have experience with heavy-handed and borderline-legal collection tactics, however. Founded in 1994, ECMC spearheaded the government's efforts over two decades to counter student loan defaults via garnishment of wages, tax rebates and Social Security, according to the *New York Times*.

In fact, ECMC is the main private entity hired by the Department of Education to oppose the petitions of student debtors filing for bankruptcy on federal loans. It has become infamous for its ruthless policy of denying "undue hardship" to impoverished former students, many of whom seek relief due to cancer and other severe illnesses.

The federal government brokered the transaction between CCI and ECMC rather than risk a precedent-setting case in which student loan obligations were cancelled. Without the sale, all federal student loans to Corinthian students could have been voided under the "closed school" provision. A government estimate cited the potential loss to the DOE as \$30 million, with an estimated 6 percent of students applying for a discharge. But the real liability could have been much higher; Corinthian, according to a legal filing, said its

students held a whopping \$1.2 billion in federal loans.

The sale agreement included \$480 million in forgiveness for some of the students who were strong-armed into CCI's private high-interest loans through its Genesis program; however, this does not nearly forgive the outstanding debts.

Nearly 130,000 borrowers took out loans from the company, which charged about double normal interest rates, used deceptive information about students' job prospects, and then illegally harassed borrowers for payments. The CCI student population was primarily working-class and low-income.

But instead of cancelling all the student debts, the agreement provides a general legal liability release for the Genesis loans in exchange for \$17.25 million to be paid to the DOE and a 40 percent debt reduction to qualifier borrowers. The agreement also accepted the ban, instituted by Corinthian, on students' rights to join class-action lawsuits.

Corinthian sold "virtually all" of its Genesis notes for pennies on the dollar last year, according to *Huffington Post*. Those notes—totaling 170,000 loans with a face value of \$505 million—aren't part of the deal the DOE brokered between Corinthian and ECMC. The collection agencies that bought the loans will continue to pursue the students saddled with these high-interest debts.

Collection of student loans is big business. Payouts from the DOE to private debt collectors like ECMC topped \$1 billion in 2014, the National Consumer Law Center reported. By 2016, the center said, it will have doubled to \$2 billion.

On February 19, Corinthian's Canadian license was revoked and 14 Ontario schools shut down, including campuses in Brampton, Mississauga, Newmarket, North York, Scarborough, Toronto, Barrie, Hamilton, Kitchener, Ottawa, Sudbury and Windsor. Canadian students will reportedly be given access to transitional funding or refunds.

Two days prior, Corinthian was suspended from trading on the Nasdaq for failing to file reports in a timely fashion to the Securities and Exchange Commission. The DOE has withheld federal funds from the institution since last June over allegations that CCI falsified job placement data in marketing pitches to students.

CCI was under investigation by more than half the

states in the US, the Securities and Exchange Commission, the Consumer Financial Protection Bureau and the Justice Department, with legal complaints going back as far as 10 years. The vast majority of CCI's funding came from the federal student loan program administered by the DOE.

Under the Higher Education Act, the DOE is responsible for ensuring the effective administration and oversight of federal student aid. In other words, for years the highly profitable, publicly traded CCI (CEO Jack Massimino took home more than \$3 million in compensation in 2013), depended entirely on the Obama administration turning a blind eye to its predatory and illegal practices.

The CFPB played its typical role of highlighting some of the most egregious legal violations by Corinthian while facilitating a deal to protect government revenues and enable the for-profit institution to survive—albeit with a different owner—and minimizing the transitional expense of the dirty deal at the expense of student debtors.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact