

**California Oversight of For-Profit Colleges Enrolling Veteran Students**  
*What lessons have regulatory agencies learned from the closure of Corinthian Colleges, Inc.?*

Joint Oversight Hearing of the Assembly Veterans Affairs and Higher Education Committees  
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## **INTRODUCTION**

In 1944, the Servicemen's Readjustment Act ("G.I. Bill") provided a range of benefits to servicemen and women returning from World War II. Among these benefits, veterans were provided with tuition assistance for education or technical training and a monthly living stipend. By 1956, over 2 million veterans had accessed G.I. Bill educational benefits. Today, robust educational benefits are available both to active duty personnel and veterans through two key programs: the Tuition Assistance program administered and run by the federal Department of Defense (DOD) and the Post-9/11 Veterans Educational Assistance Act ("Post-9/11 G.I. Bill") administered by the federal Department of Veterans Affairs (VA). According to data from the National Center for Education Statistics, during Fiscal Year 2011, 923,836 U.S. service members received over \$10 billion in assistance from military and veteran educational benefit programs, with 9.6% living in California.

The growth in funding for military educational benefits has resulted in some colleges and universities increasing marketing and recruitment activities focused on this student population. According to a 2014 report issued by the U.S. Senate Health, Education, Labor and Pensions (HELP) Committee, between 2009 and 2014, the top eight for-profit colleges received \$2.9 billion in Post-9/11 G.I. Bill benefits and nearly 25% of all Post-9/11 G.I. Bill funds in the 2013-14 academic year. Numerous reports and hearings focused on the experience of veterans at private for-profit institutions have raised concerns about the quality of some educational programs and the integrity of some institutions. The HELP Committee found that seven of the eight for-profit schools receiving the most Post-9/11 G.I. Bill funding are under state or federal investigation. A 2010 HELP Committee report found that schools receiving the most funding had at least one campus with a student default rate above 24% over three years. In response to these and similar findings, state and federal laws have increased oversight of for-profit colleges enrolling veterans.

In California, the California State Approving Agency for Veterans Affairs (CSAAVE), the Bureau for Private Postsecondary Education (BPPE), the California Attorney General, and accrediting agencies each play a role in protecting service members and their educational benefits. The recent closure of Corinthian Colleges, Inc. (CCI) raises important questions about the cooperation and coordination among these entities in regulating the for-profit college sector. This is particularly important given the number of pending federal and state investigations into, and actions against, other for-profit institutions. The Republic Report has compiled a complete list of major actions, which can be found online at <http://www.republicreport.org/2014/law-enforcement-for-profit-colleges/>.

## **BACKGROUND ON OVERSIGHT AGENCIES AND SUPPORT SERVICES**

CSAAVE, housed within CalVet, is federally funded and operates under an annual reimbursement contract with the VA. In its role as the California approval agency, the primary function of CSAAVE is to review, evaluate and approve quality educational and training programs for veteran's benefits. CSAAVE reviews colleges and universities, vocational schools, business schools, professional schools, and licensing and certification training and tests, all of which, in order to be approved, must lead to an educational, professional or vocational objective. As of May 2015, there were 75,588 veterans and eligible persons utilizing G.I. Bill benefits at 1107 institutions in California. Federal law does not establish requirements for state-level consumer protections for veteran students using education benefits, but does authorize the establishment of additional state-level "reasonable criteria" for approval. AB 2099 (Frazier), Chapter 676, Statutes of 2014, established minimum requirements for institutions approved by CSAAVE to participate in federal veteran's

education benefits; these requirements ensure degree-granting programs are accredited, for-profit colleges are approved by the BPPE (providing students a complaint resolution process), and that CSAAVE can enact additional reasonable criteria as appropriate. Of note, CSAAVE was housed in the former-Bureau for Private Postsecondary and Vocational Education (former-Bureau), within the Department of Consumer Affairs (DCA), until the dissolution of the former-Bureau in 2007.

The BPPE was established on January 1, 2010, (AB 48, Portantino, Chapter 310, Statutes of 2009) within the DCA, to provide oversight of private postsecondary educational institutions in order to prevent harm to students and the deception of the public that result from fraudulent or substandard educational programs and degrees. The BPPE enforces minimum standards and disclosure requirements for institutions; specifically, BPPE licenses institutions, conducts inspections, investigates complaints, imposes discipline through citations and formal accusations, and administers the Student Tuition Recovery Fund (STRF) to provide refund to students affected by the closure of an institution. In March 2014, the California State Auditor released an audit report reviewing the effectiveness and efficiency of BPPE operations. The report found that BPPE had failed to meet responsibilities to protect the public's interest. A primary challenge facing BPPE was a lack of sufficient and experienced staff to perform mandated functions. In 2014, during the Legislative "sunset review" process, BPPE indicated it had sought and obtained additional staff to assist in operations and was working to reduce backlogs and improve oversight activities. SB 1247 (Lieu, Chapter 840) reauthorized the BPPE until January 1, 2017; a Legislative sunset review of BPPE progress is set for next year. According to the DCA Director, as of July 1, 2015, the BPPE has filled two positions, an analyst and an attorney, and is in the process of filling 15 additional positions authorized in the 2015-16 Budget Act.

The Office of the Attorney General (OAG) represents the People of California in civil and criminal matters before trial courts, appellate courts and the supreme courts of California and the United States. Among its responsibilities, the OAG establishes and operates projects and programs to protect Californians from fraudulent, unfair and illegal activities that victimize consumers; this includes investigations into the for-profit college industry regarding illegal and exploitative practices. In October of 2013, Attorney General Kamala Harris filed a lawsuit against CCI for false and predatory advertising, intentional misrepresentations to students, securities fraud, and unlawful use of military seals in advertisements.

Accreditation is a voluntary, non-governmental peer review process used to determine academic quality. Accrediting agencies are private organizations that establish operating standards for educational or professional institutions and programs, determine the extent to which the standards are met, and publicly announce their findings. Under federal law, the US Department of Education (USDE) establishes the general standards for accreditation agencies and publishes a list of recognized accrediting agencies deemed "reliable authorities on the quality of education provided by their accredited institutions". Institutional accreditation is a requirement for participation in most state and federal financial aid programs. Accreditation is also required for degree-granting programs to obtain CSAAVE-approval for veterans' benefits. There are six USDE-recognized regional accrediting agencies. Each regional accreditor encompasses public, the vast majority of non-profit private (independent), and some for-profit postsecondary educational institutions in the region it serves. California's higher education regional accrediting agency is separated into two commissions; the WASC Senior College and University Commission (WASC Sr.) and the Accrediting Commission for Community and Junior Colleges (ACCJC) provide regional accreditation for colleges in California, Hawaii, and U.S. territories. At the time of closure, Heald College (owned by CCI) was accredited by WASC Sr. WyoTech and Everest colleges (owned by CCI) were primarily accredited by a national accrediting agency, the Accrediting Commission of Career Schools and Colleges.

The Veterans Legal Clinic at the University of San Diego (USD) School of Law provides free legal services to veterans struggling to resolve disputes with for-profit education companies over the use of GI Bill funds and related loans. The Veterans Clinic also represents veterans appealing VA disability determinations and veterans seeking to change the characterization of service of their military discharge.

## **BACKGROUND ON CCI CLOSURE AND VETERANS**

CCI institutions (Everest, Heald and WyoTech Colleges) offered a range of programs, from certificates (\$13,100-\$21,338) to bachelor's degree programs (\$60,096-\$75,384). Most students attending CCI were low-income, or the first in their families to seek an education beyond high school. In 2012, CCI reported that 85% of its students had family incomes of less than \$45,000 a year, and 35% of CCI students had a household income of less than \$10,000. Most students attending CCI received financial aid; an estimated 84.8% of CCI's net revenue came from federal financial aid (Pell Grants and Federal Loans). Federal rules require that institutions receive at least 10% of revenues from non-Title IV sources ("90/10 rule"); however, this can include state aid, veteran's aid, and private loans (among other sources). To achieve compliance with the 90/10 rule, CCI students were encouraged to take out private loans and use veterans' financial aid benefits. Between 2009 and 2013, CCI received an estimated \$186 million in Post-9/11 G.I. Bill funds.

On June 26, 2014, CSAAVE suspended CCI institutions participation in Title 38 programs due to the SEC filing indicating CCI was fiscally unstable. In August of 2014, CSAAVE withdrew institutional approval at all institutions owned and operated in California by CCI. The 23 California campuses were prohibited from receiving GI bill benefits. In order to continue using Title 38 benefits, veteran students were required to transfer/enroll in a CSAAVE eligible school. It is unclear how many California veterans transferred to other CSAAVE-approved institutions or continued their studies at CCI using other payment methods.

In November of 2014, the ECMC Group, a nonprofit organization that operates a large student-loan guaranty agency, announced it would purchase 56 campuses from CCI. A coalition of student, consumer, veterans and civil rights groups opposed the sale of the CCI campuses, noting that ECMC did not have experience running educational institutions. According to the coalition letter to the USDE, "in the field where ECMC does have experience, its actions have veered more than occasionally into dubious terrain, using ruthless tactics to hound debtors to the point where the company has been sanctioned and reprimanded by judges for abusing the bankruptcy process." The coalition also noted that the terms of the sale would not give students the choice of having their federal loans discharged.

California campuses were not included in the sale to ECMC; press reports attributed ECMC's decision largely to a lawsuit that had been filed in October of 2013, (which remains pending) by Attorney General Kamala Harris that contained a range of allegations about deceptive marketing and job-placement claims. CCI, based in Santa Ana, continued to operate and enroll new students at campuses throughout California. On April 14, 2015, the US Department of Education announced a \$30 million fine against Heald's Salinas and Stockton campuses for fraudulent placement and other advertising. The decision effectively barred all Heald campuses from receiving federal funds for new enrollments. On April 16, 2015, the California Student Aid Commission permanently terminated Heald's eligibility for the Cal Grant program. On April 17, 2015, the BPPE/DCA issued an emergency decision prohibiting Everest and WyoTech campuses from enrolling new students. CCI closed all campuses on April 26<sup>th</sup> and filed bankruptcy on May 4, 2015.

Federal and state laws provide for some protections for students attending CCI, and the California Department of Justice (DOJ) has created a website to inform students of their rights and options. However, for veteran students, Post-9/11 G.I. Bill benefits are limited to 36 months (approximately four academic years) and federal law does not currently authorize the reinstatement of benefits used at a closed or fraudulent institution. A number of state and federal lawmakers, student and consumer advocate coalitions have appealed to the federal and state government to expand benefits to students harmed by the CCI closure; as outlined below, the state and federal government has responded.

## **FEDERAL RELIEF FOR CCI STUDENTS**

In an attempt to respond to calls for relief, the USDE has announced that CCI students may be eligible for expanded loan forgiveness in two situations: if they attended a CCI school that closed on April 27, 2015

("closed school discharge"); or, if they believe they were defrauded by a CCI school and the school engaged in actions that violate applicable state laws, regardless of whether that school closed ("defense to repayment claim"). The USDE has also announced the appointment of a Special Master to assist in establishing a "debt relief process that is efficient, transparent, and fair for students and taxpayers." These announcements come at a time when USDE and its student loan contractors have faced criticism over the treatment of borrowers, including accusations of misleading borrowers about their rights, violating federal consumer law, improperly applying borrowers' monthly payments to outstanding debts and ignoring borrowers' requests for relief that they are entitled to under law.

Several organizations, including the National Consumer Law Center (NCLC), have raised questions and concerns regarding the USDE announcement for expanded debt relief for CCI students, including that although the USDE could identify and grant automatic relief to all CCI students it will require that borrowers apply. NCLC notes that the department has acknowledged that historically only 6% of eligible borrowers contact USDE about loan discharges. According to NCLC, it is important that students have accurate and timely assistance to navigate the relief process.

## **STATE RELIEF FOR CCI STUDENTS**

The California Student Tuition Recovery Fund (STRF) administered by the BPPE, is funded by students enrolled in institutions regulated by the BPPE and provides for reimbursement to students for economic loss due to the closure or illegal activity of a regulated institution. California students enrolled in a California WyoTech and Everest campus are eligible for STRF. Unlike federal loan forgiveness, STRF provides for partial refunds if students transfer some of their credits to another institution. Unfortunately, however, STRF requires an application and approval process and BPPE reports that an estimated 40% of claims are denied. Further, an exemption from state oversight from the BPPE means STRF is not currently available to Heald students or California students enrolled in out-of-state online CCI programs.

In recognizing existing programs are insufficient to support all California students harmed by the CCI closure, on May 14, 2015, the California Assembly approved AB 573 (Medina) by a vote of 74-0. AB 573, which is currently pending in the Senate Education Committee, provides a number of benefits to former CCI students, including:

- Local assistance grants to nonprofit organizations, including specialized veterans organizations, to help students with the tuition recovery and loan forgiveness process.
- Community college access through outreach programs and waiving fees for eligible California students harmed by the closure of CCI; and, restoration of the year(s) of Cal Grant eligibility for Heald students to ensure students are not harmed by the award year limitations in the program.
- Tuition recovery for California Heald and online students, including veteran students, through expanding STRF eligibility.

Additionally, SB 105 (Nguyen and Huff) is currently pending in the Senate Appropriations Committee and would allow students to receive federal loan debt forgiveness without creating a tax liability.