

United States Senate

WASHINGTON, DC 20510

August 5, 2014

The Honorable Barack Obama
President of the United States
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Mr. President:

In light of the financial collapse of Corinthian Colleges we write to express our serious concern with the financial integrity and stability of a number of companies operating large for-profit colleges and ask for an expedited response to a number of important questions this issue raises.

The recent announcement that Corinthian Colleges Inc. will largely cease operating while currently serving over 70,000 students has revealed a startling lack of liquidity and an unacceptable reliance on federal financial aid dollars for day-to-day operations. It is also extremely troubling that recent press accounts revealed that the Department of Education did not have ample information, resources, or the expertise needed to properly assess Corinthian's dire fiscal condition. Though financial analysts were well-aware of the precarious financial situation of Corinthian, the Department apparently was not. As one Department of Education official noted in a recent press article, the government's financial monitoring system "didn't work in the case of Corinthian." Even with the receipt of billions of taxpayer dollars, it is simply remarkable that Corinthian was unable to continue operations in the absence of additional federal financial aid funds for a mere three weeks.

In broader terms, Corinthian Colleges Inc.'s failure raises serious questions about the financial integrity of other similarly situated, publicly traded, for-profit colleges. The Department's own records indicate that more than 23 additional companies that enroll 4,000 or more students currently have failing or close to failing financial integrity scores. One publicly traded company, ITT Tech, for instance, has already notified investors of significant financial concerns. Given that students attending such schools, including Corinthian, hold a combination of Title IV, institutional, and other private loans, we believe it is absolutely critical to protect these students from a repeat of Corinthian.

We urgently need to bring all relevant federal agency expertise to bear in assessing the risk to students and taxpayers of another massive institutional failure. To this end, we urge the Administration, and especially the Department of Education, to undertake a full assessment of the risk posed by institutions that have a similar profile to Corinthian, addressing at minimum the following questions:

- Does the federal government have adequate tools to determine the solvency of for-profit education companies on a real-time or reasonable basis?
- If so, to what extent does the relatively insolvent nature of these corporations pose a substantial risk for students, taxpayers, and investors?

- If placed under heightened cash monitoring status like Corinthian, to what extent could peer for-profit companies continue to operate on credit or cash reserves without federal funds for extended periods of time?
- To what extent do “goodwill” accounting metrics mask or understate fiscal responsibility problems as part of the Department of Education’s formal review process?
- To what extent do “goodwill” calculations at these schools need to be reassessed in light of the financial demise of Corinthian Colleges?
- To what extent are these firms capitalized to withstand pending state and federal lawsuits?
- To what extent are these firms capitalized to withstand likely regulatory and statutory changes?
- What steps has the Department alongside other agencies taken to protect veterans, servicemembers, and other beneficiaries that are less likely to participate in the Title IV programs?
- What steps are needed to strengthen the Department of Education’s current financial responsibility procedures to better protect students, taxpayers and investors?

Unfortunately, we are just beginning to understand the true ramifications to students and taxpayers of the Corinthian house of cards. For the sake of all stakeholders, it is imperative that we receive timely information to these critical questions

Sincerely,

Tom Harkin
United States Senator

Richard J. Durbin
United States Senator

Chris Murphy
United States Senator

Brian Schatz
United States Senator

Jack Reed
United States Senator

Kay Hagan
United States Senator

cc: Hon. Arne Duncan, Secretary of Education
Hon. Mary Jo White, Chair, United States Securities and Exchange Commission
Hon. Jacob J. Lew, Secretary of the Treasury

Hon. Rich Cordray, Director, Consumer Financial Protection Bureau
Cecilia Muñoz, Director, White House Domestic Policy Council
Jeffrey Zients, Director, White House National Economic Council
Hon. Sean Donovan, Director, Office of Management and Budget