# Corinthian Colleges

## Introduction

Corinthian Colleges, Inc. ("Corinthian") offers Certificate and Associate programs in many areas as well as a small Bachelor's program both online and at on-ground campus locations. Like many for-profit education companies, Corinthian has experienced significant growth in student enrollment, Federal funds collected, and profit realized. Although Corinthian College Inc. offers primarily Certificates and 2-year degrees, the company's tuition prices are among the highest the committee examined. This forces many students to both borrow the maximum available Federal financial aid and to take on additional private debt. The student withdrawal rates for the Associate programs are among the highest analyzed by the committee staff and the withdrawal rates for the Certificate programs are above the sector average. The company also had unusually high rates of students defaulting on student loans during the period examined. It is unclear that Corinthian delivers an educational product worth the rapidly growing Federal investment taxpayers and students are making in the company.

## Company Profile

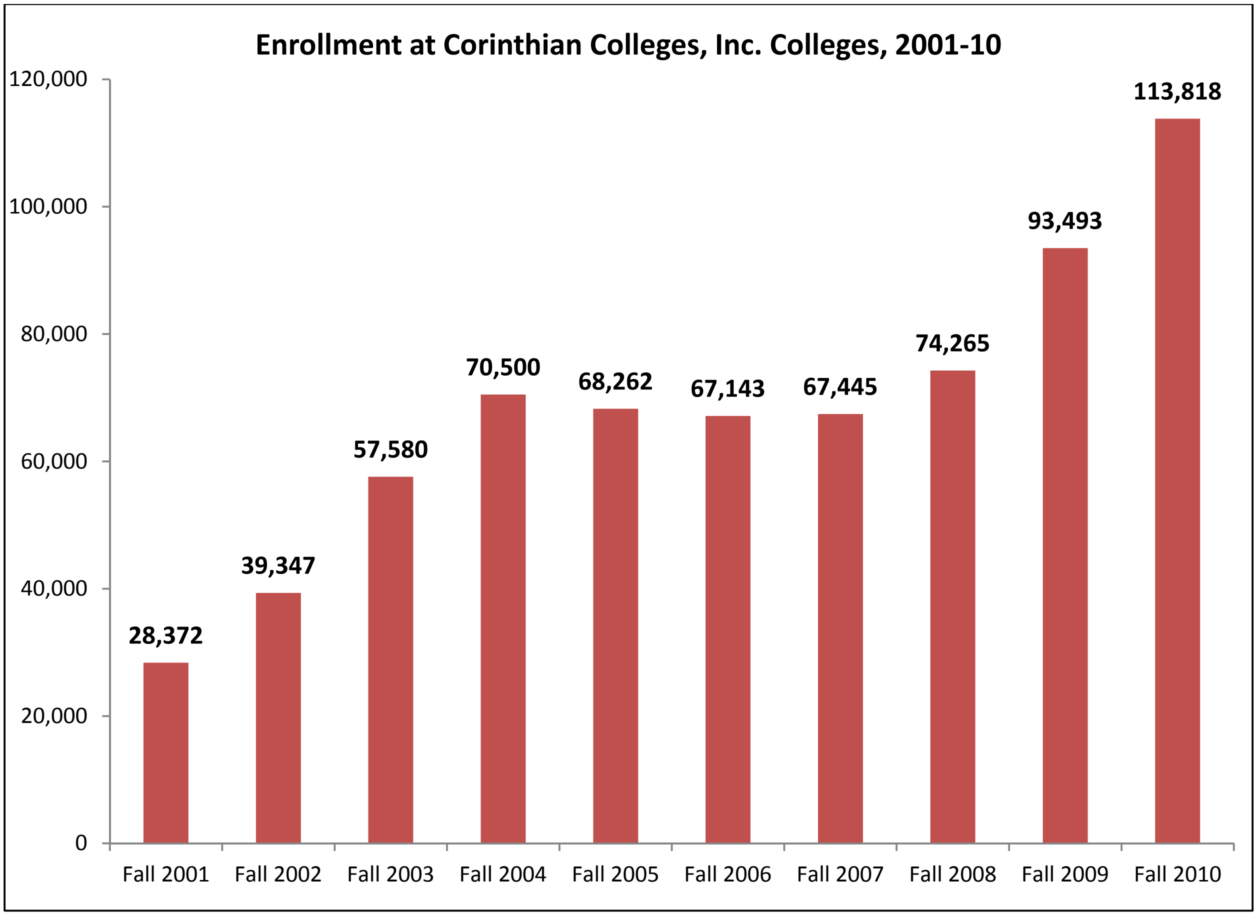
Corinthian is a publicly traded, for-profit education company headquartered in Santa Ana, CA. Corinthian operates a total of 105 campuses in 25 States, along with an online division, and offers diploma and degree programs in health care, business, criminal justice, transportation technology and maintenance, construction trades, and information technology.[1521] Committee staff estimates that approximately 34 percent of Corinthian students are enrolled online, and 64 percent are enrolled in diploma (non-degree) programs.

| Brands |
|---|
| Everest |
| Heald College |
| Wyotech |

Individual Corinthian-branded campuses are primarily accredited through two national accreditors: the Accrediting Commission of Career Schools and Colleges (ACCSC) and the Accrediting Council for Independent Colleges and Schools (ACICS). The current chair of the board of ACCSC also serves as the executive vice president of operations for Corinthian. Some of the Everest College campuses are also regionally accredited by the Higher Learning Commission (HLC), a division of the North Central Association of Colleges and Schools. Heald College campuses are regionally accredited by the Western Association of Schools and Colleges (WASC).

1521 Corinthian Colleges, Inc., *Company History*, http://www.cci.edu/about/history (accessed June 18, 2012).

Corinthian was founded in 1995 and went public in 1999. The current CEO and chairman of the board is Jack D. Massimino. Before joining Corinthian, Mr. Massimino was an executive in the health care industry.




In the fall of 2010, 113,818 students were enrolled at Corinthian.[1522] Enrollment quadrupled in 10 years, growing from 28,372 in 2001. Enrollment fell to 94,000 in 2011.[1523]

Corinthian's growth strategy focuses on expanding short-term Diploma program offerings across its campuses in healthcare and trades.[1524] It is also piloting three new Diploma programs in personal care, IT, and business, and is continuing to increase the number of Associate degree offerings.[1525] The growth in enrollment led to growth in revenue. In 4 years, revenue nearly doubled, from $909 million in 2006 to $1.76 billion in 2010.[1526]

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1522 Enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education 's Integrated Postsecondary Data System (hereinafter IPEDS). See Appendix 7.

1523 The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies.

1524 Corinthian Colleges, Inc., August 23, 2012, Q4 Investor Call; See also Corinthian Colleges, Inc., August 25, 2009, Q4 Investor Call.

1525 Id.

1526 Revenue increased in 2011 from $1.8 billion to $1.9 billion. Profit fell to a net loss of $83 million in the same year. Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

## Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1527] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1528]

In 2010, Corinthian reported 81.9 percent of revenue from title IV Federal financial aid programs.[1529] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA).[1530] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 1.2 percent of Corinthian's revenue, or $21.2 million.[1531] With these funds from the Departments of Defense and Veterans Affairs included, 83.1 percent of Corinthian's total revenue was comprised of Federal education funds.[1532] Based on information the company provided, the committee estimates thatCorinthian may have discounted up to 8 percent of revenue, or $137.7 million, pursuant to ECASLA.

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[1527] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

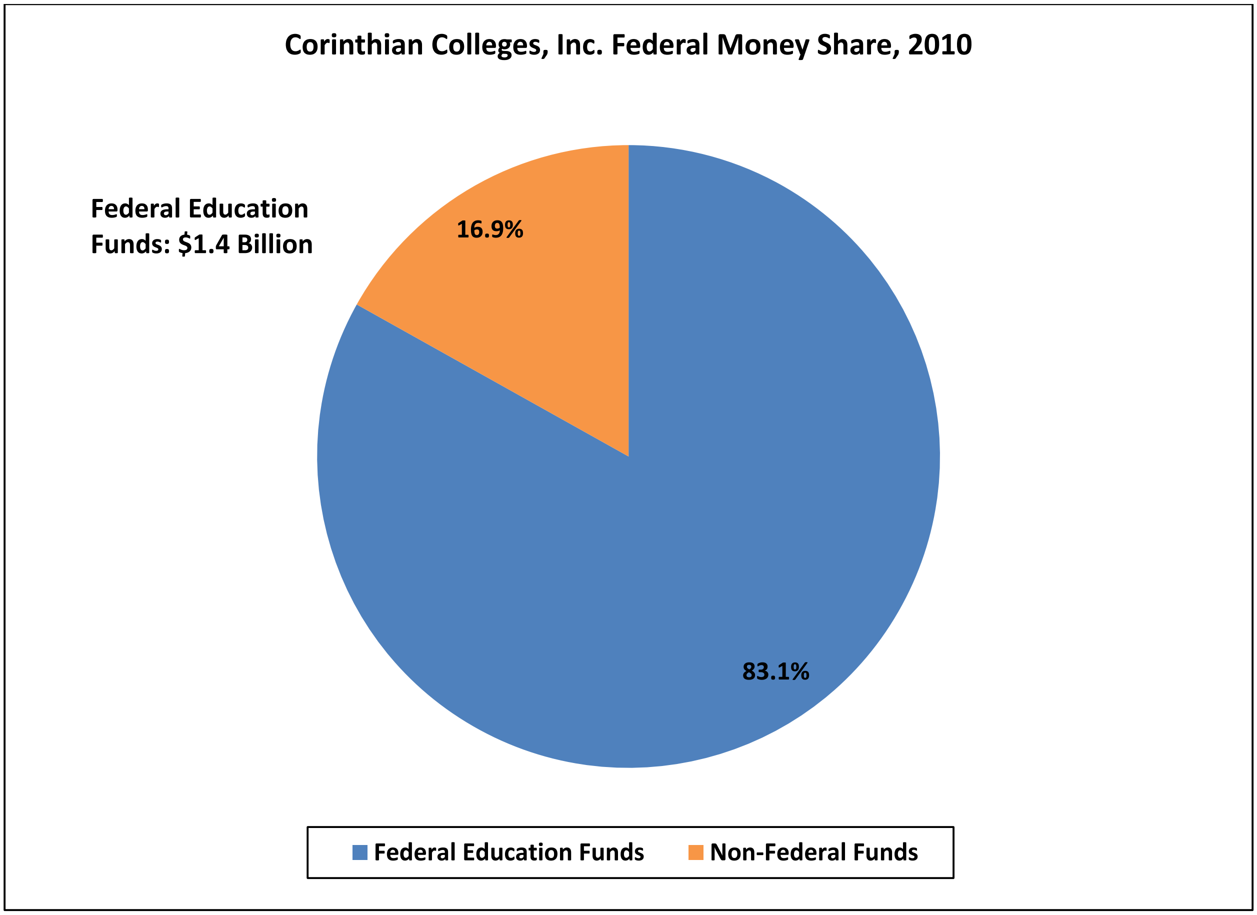
[1528] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 15, 2011. See Appendix 9.

[1529] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 15, 2011. See Appendix 9.

[1530] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

[1531] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the Committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

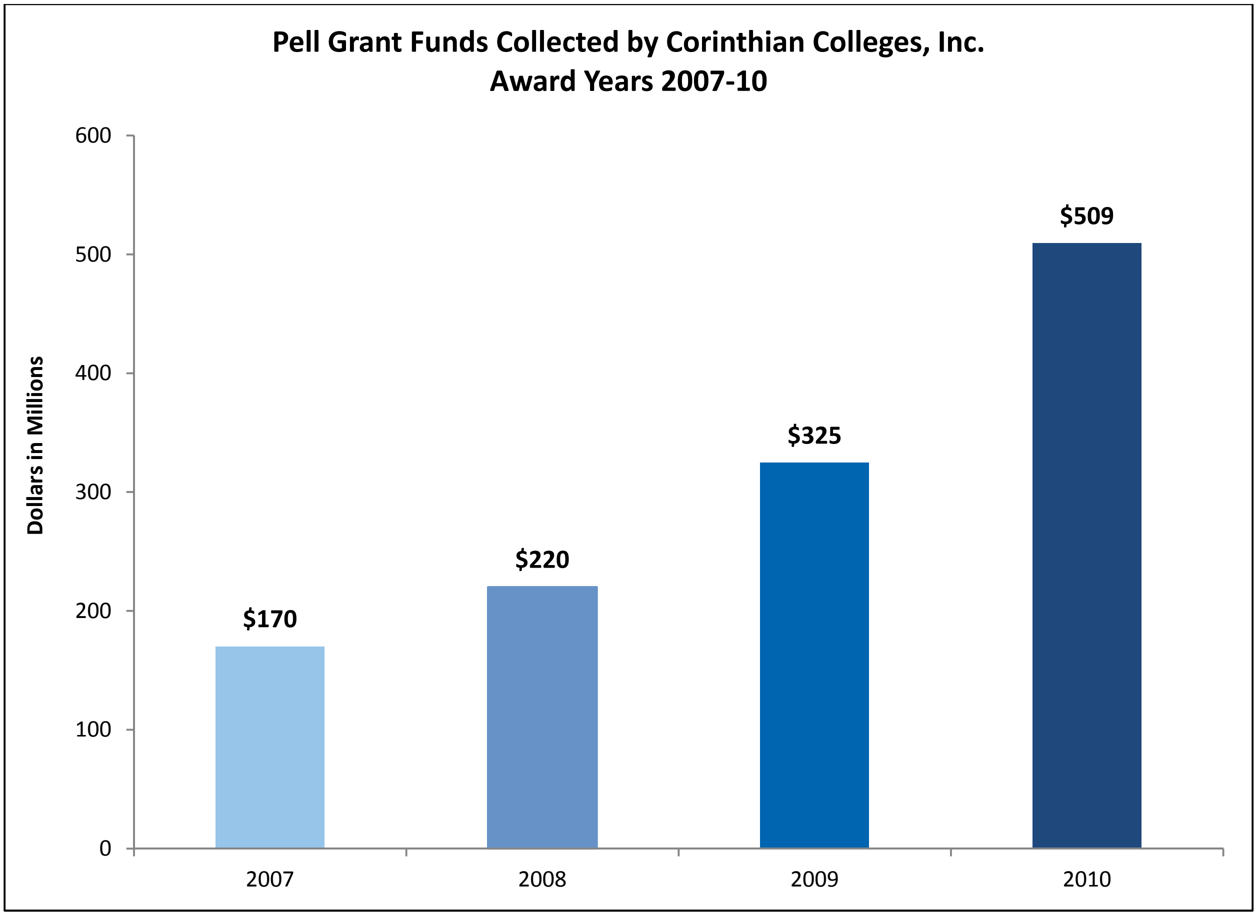
[1532] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs.




The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1533] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

Corinthian tripled the amount of Pell grants it collects in just 3 years, from $170.2 million in 2007 to $509.3 million in 2010. [1534]

[1533] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.
[1534] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

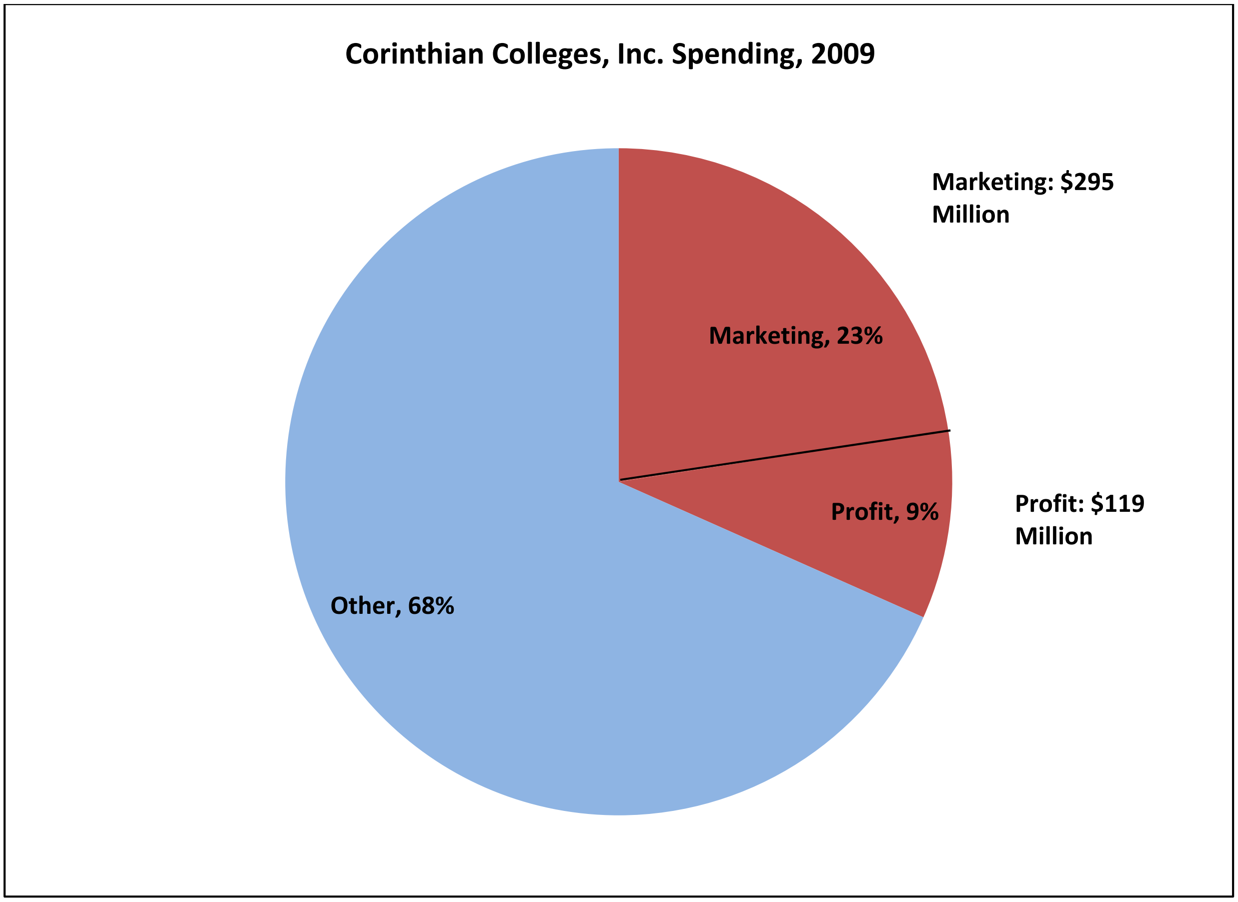



## Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1535] During the same period those companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and dedicated 19.7 percent to profit ($3.2 billion).[1536] These 15 companies allocated a total of $6.9 billion to marketing, recruiting and profit in fiscal year 2009.

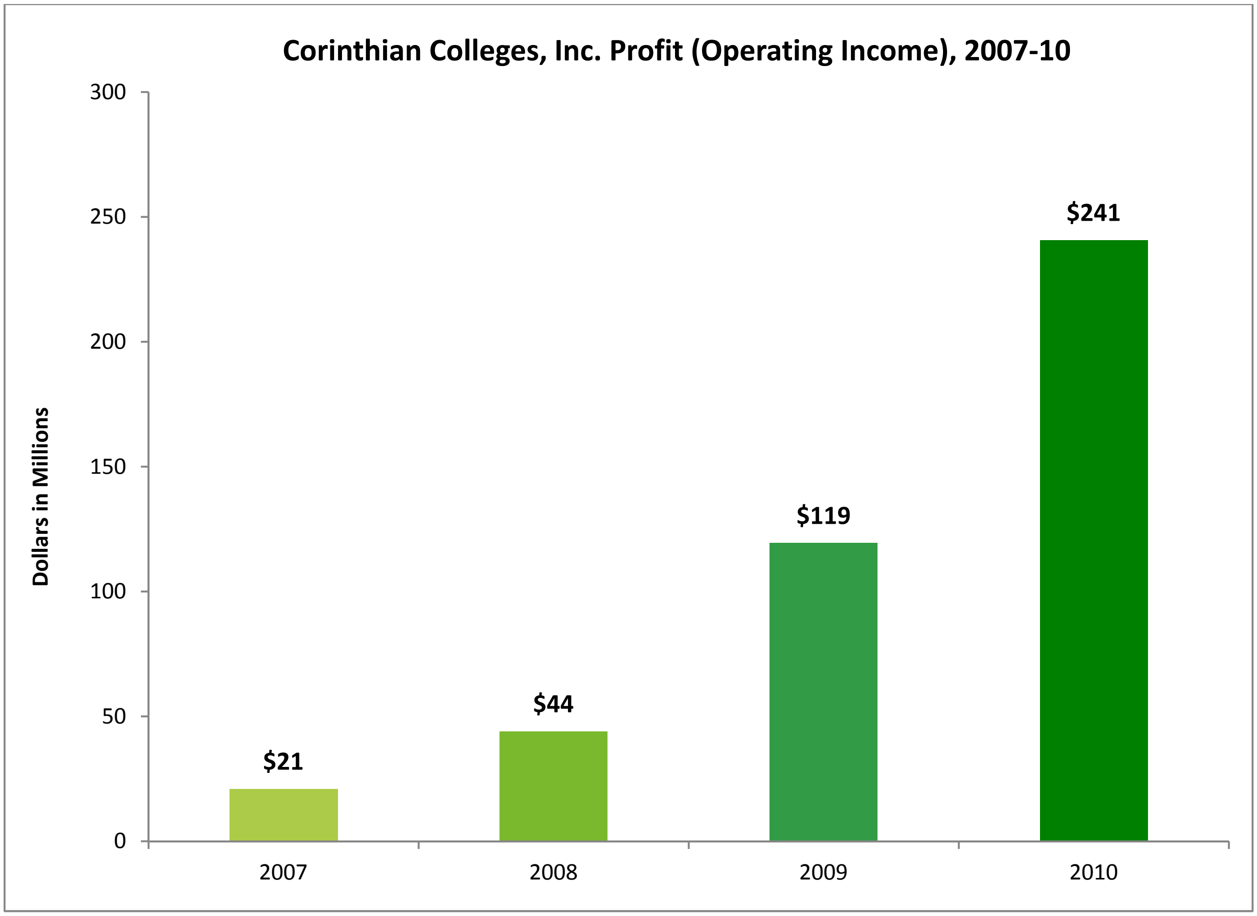
In 2009, Corinthian allocated 9.1 percent of its revenue, or $119.2 million, to profit, and 22.5 percent, or $294.7 million, to marketing and recruiting.[1537]

[1535] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1536] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation.
[1537] Id. On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit. The "other" category in the chart below includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.




As a percentage of revenue, Corinthian spends close to the average of the 30 companies examined on marketing and recruiting, and allocates a lower proportion than most to profit. However, the amount of profit Corinthian generated rose rapidly over the last several years. In 2007, Corinthian reported a profit of $21 million, and by 2010 that profit had increased 11-fold, growing to $240.8 million. Due to a drop in enrollment, Corinthian had a net loss of $83 million in 2011.[1538]

[1538] Corinthian announced the net loss for 2011, attributing it in part to the company's decision to no longer enroll higher risk "Ability to Benefit" students. See Corinthian Colleges, Inc., November 1, 2011, *Corinthian Colleges Reports Fiscal 2012 First Quarter Results*, http://newsroom.cci.edu/releasedetail.cfm?ReleaseID=619610 (accessed June 18, 2012). Corinthian's decision regarding Ability to Benefit students was taken to help reduce the company's cohort default rates. See Corinthian Colleges, Inc. Investor Call, Q3 May 3, 2011.




## Executive Compensation

Executives at Corinthian, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1539] In 2009, Corinthian's current CEO Jack Massimino received $3.3 million in compensation, more than eight times as much as the president of the University of California at Irvine, who received $382,980 in total compensation for 2009-10.

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[1540] Massimino's $3.3 million compensation package for 2009 is under half the average for the publicly traded companies. Moreover, compensation agreements make clear that pay is based on enrollment and profit goals, not student success.[1541] In fact, 75 percent of Mr. Massimino's compensation is based on "operating profit performance."

[1539] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and Chief Executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.
[1540] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.
[1541] Corinthian Colleges, Inc., Form DEF 14A, October 6, 2011.

| Executive | Title | 2009 Compensation | 2010 Compensation |
|---|---|---|---|
| Jack Massimino | Executive Chairman; also CEO after Nov. 2010 | $3,343,434.00 | $3,032,703.00 |
| Peter Waller | Chief Executive Officer | $1,984,619.00 | $4,463,882.00 |
| Kenneth S. Ord | Executive Vice President and Chief Financial Officer | $1,472,628.00 | $1,605,529.00 |
| Beth Wilson | Executive Vice President | $1,409,213.00 | $1,516,676.00 |
| Matt Ouimet | President and Chief Operating Officer | $1,406,812.00 | $2,021,538.00 |
| **Total**[1542] | | $9,616,706.00 | $12,640,328.00 |

## Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at Corinthian. The Medical Assistant diploma program at Corinthian's Heald College in Fresno, CA, costs $22,275.[1543] A comparable program at Fresno City College costs $1,650.[1544] An Associate degree in paralegal studies at Corinthian-Owned Everest College in Ontario, CA, costs $41,149[1545], compared to $2,392 for the same degree at Santa Ana College.[1546] Everest College charges $82,280 for a Bachelor's Degree in Business.[1547] The same degree is available at the University of California – Irvine for $55,880.[1548] Corinthian's cost for a diploma was among the highest surveyed by the committee, and the cost of an Associate degree at Corinthian was the highest surveyed, surpassing the next highest-cost school (ITT) by 17 percent. Moreover, Corinthian was extremely lacking in transparency regarding these costs. Prior to new regulations requiring tuition disclosures, committee staff struggled to accurately determine the cost of most Corinthian programs.[1549]

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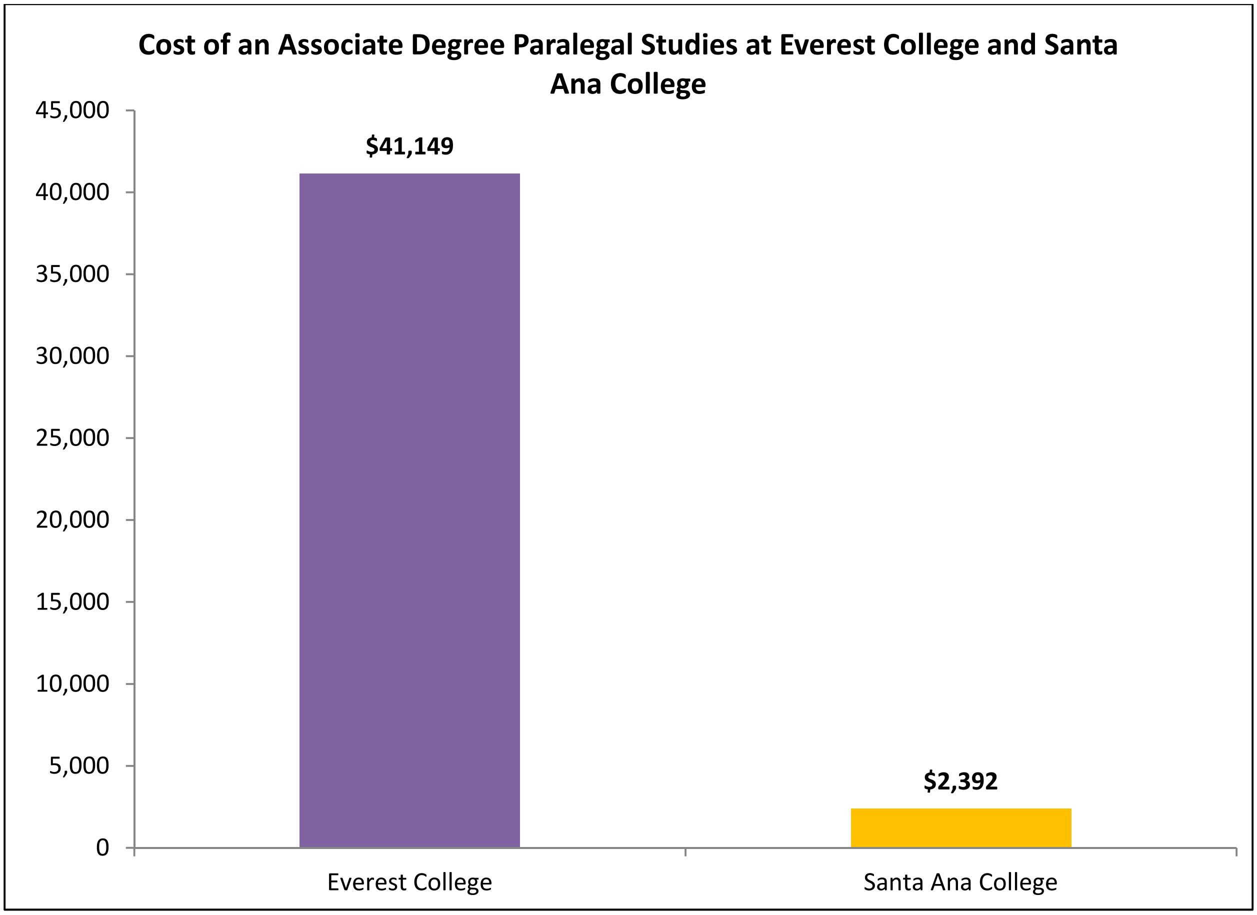
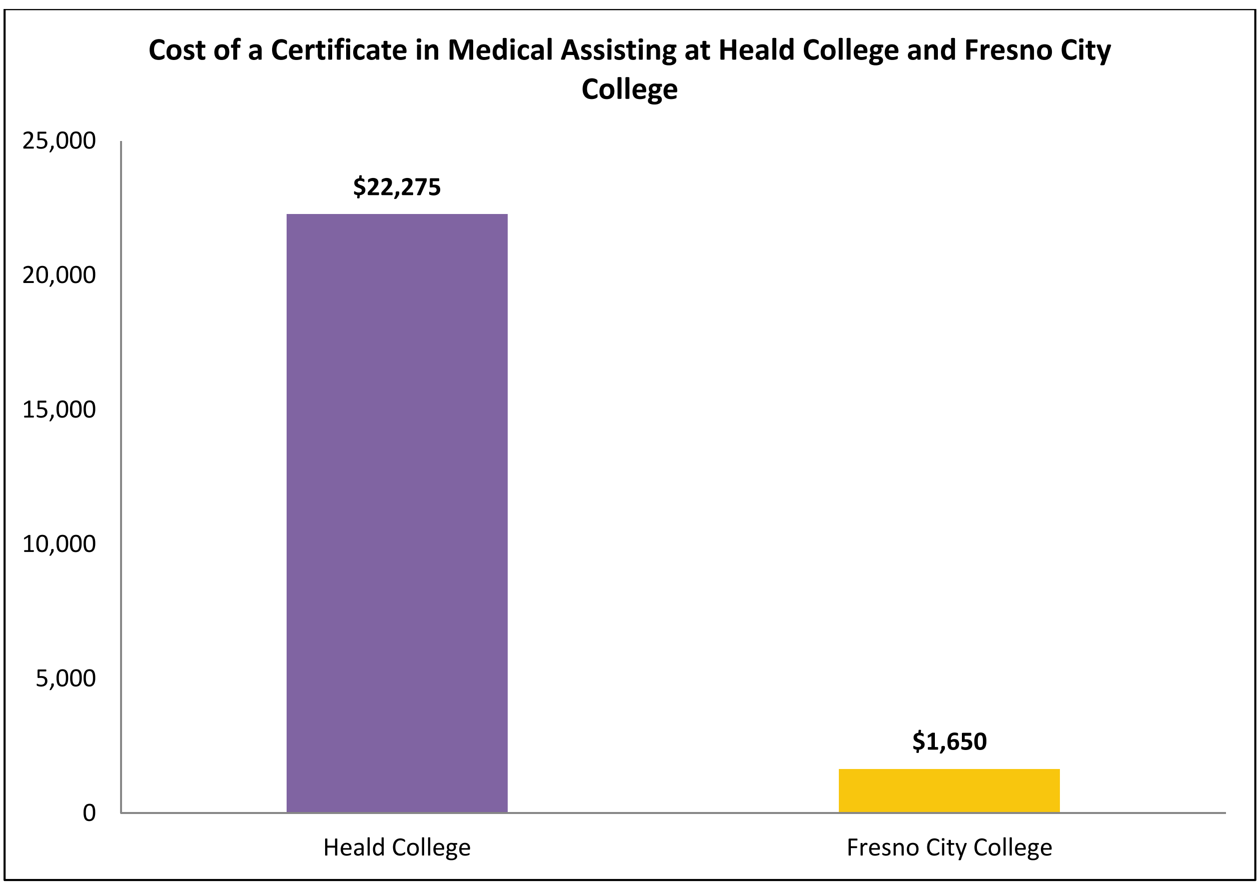
[1542] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
[1543] See Appendix 14; see also, Corinthian Colleges, Inc., *Program Disclosures: Heald College, Fresno*, http://disclosures.heald.edu/disclosures/heald-college-fresno.pdf (accessed June 18, 2012).
[1544] See Appendix 14; See also, Fresno City College, *Fresno City College*, http://www.fresnocitycollege.edu/ (accessed June 18, 2012).
[1545] See Appendix 14; See also, Corinthian Colleges, Inc., *Program Disclosures: Everest College, Ontario Metro*, http://disclosures.everest.edu/disclosures/everest-college-ontario-metro.pdf (accessed June 18, 2012).
[1546] See Appendix 14; See also, Santa Ana College, *Santa Ana College*, http://www.sac.edu/Pages/default.aspx (accessed July 12, 2012).
[1547] See Appendix 14; See also, Everest University, *Program Disclosures*, http://disclosures.everest.edu/disclosures/everest-university-tampa.pdf?cache1342188115 (accessed July 13, 2012).
[1548] See Appendix 14; See also, University of California – Irvine, *University of California – Irvine*, http://www.uci.edu/ (accessed July 13, 2012).
[1549] Committee staff examined internal documents produced by the company, Corinthian's schools' Web sites, and academic and course catalogues in an attempt to determine the cost of the programs. However, committee staff was unable to reliably determine the cost of completing a degree at the Corinthian's schools prior to new regulations requiring tuition disclosures.


Cost of an Associate Degree Paralegal Studies at Everest College and Santa Ana College
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
$41,149
$2,392
Everest College
Santa Ana College


Cost of a Certificate in Medical Assisting at Heald College and Fresno City College
25,000
20,000
15,000
10,000
5,000
0
$22,275
$1,650
Heald College
Fresno City College

The sharply higher tuition that Corinthian charges is reflected in the amount of money that Corinthian collects for each veteran that it enrolls. From 2009-11, Corinthian trained 4,676 veterans and received $60 million in post-9/11 GI bill benefits, the eighth-largest dollar amount collected by any company. Corinthian collected an average of $12,885 per veteran, compared to an average of $4,642 per veteran trained at a public college in the same period.[1550]

Corinthian implemented a 12 percent tuition increase in February 2011, and like much of the industry, increases its tuition regularly.[1551] However, recruiters are trained to discourage and deflect questions about cost from students. In an admissions representative training document, in the section on "Common Objections and Responses," recruiters are trained to deflect the question "How much does it cost" using the following script:

> John, the cost of the program will vary depending on several factors. Is your question really how much is it going to cost you in out-of-pocket dollars? (Response). In order for me to answer the question, first we would have to determine the right program for you. Second, we would have to determine what time-frame you expect to complete the program (only true if credit hour charging is used); and finally, the Student Finance office would determine the types of financial assistance you may be eligible for. Could you tell me why you are asking about the cost?" (Proceed with phone script).[1552]

## Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges recruit as many students as possible to sign up for their programs.

Internal company documents from the 2005-10 period make clear that recruiters employed by Corinthian were trained that selling the program, not advising students, is the primary responsibility of the position. One 2005 hiring manual states: "remember that this is a sales position and the new hire must understand that from the very beginning." [1553] Once a recruiter is hired, managers check the numbers of "appointments being set, interviews conduct[ed], applications taken and daily enrollment" twice a day.[1554] Moreover, Corinthian also recommended that managers not "distribute an equal amount of [leads] to a new Ad Rep nor an Ad Rep that in underperforming versus a top producing Ad Rep [sic]." [1555]

It is possible that these aggressive recruiting tactics result in a student body that is underprepared for college. On June 26, 2012, the first set of data from the Department of Education, regarding the gainful employment regulations, indicated that 5 percent of programs (193 programs at 93 institutions)

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[1550] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[1551] Corinthian Colleges, Inc., February 1, 2011, Q2 Investor Call; See Department of Education, *College Affordability and Transparency Center*, http://collegecost.ed.gov/catc/Default.aspx# (accessed June 18, 2012).
[1552] Corinthian Colleges, Inc., October 2005, *Admissions Representative Training Manual* (CCi-00046774, at CCi-00046777); See also Corinthian Colleges, Inc., *Phone Script* (CCI-00047154), Corinthian Colleges, Inc., *Overcoming Phone Obstacles* (CCi-00046688).
[1553] Corinthian Colleges, Inc., *Admissions Representative Training Manual* (CCi-00045716) describing the job as "a sales position"; See also Corinthian Colleges, Inc., *CCI Director of Admissions Operations* (CCi-00045638).
[1554] Id.
[1555] Id.

all operated by for-profit colleges failed to meet all three gainful employment criteria.[1556] These three standards include: (1) at least 35 percent of the program's former students are repaying their loans; (2) the estimated annual loan payment of a typical graduate does not exceed 12 percent of his or her total earnings; and (3) the estimated annual loan payment of a typical graduate does not exceed 30 percent of his or her discretionary income. According to analysis from *Inside Higher Ed*, Corinthian was the company with the most programs, 43 in total, failing all three criteria.[1557]

## Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis shows that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1558]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that many people who enroll in at Corinthian are not achieving their educational and career goals.

### Retention Rates

[1556] U.S. Department of Education, "Five Percent of Career Training Programs Risk Losing Access to Federal Funds; 35 Percent Meet All Three Standards Under Gainful Employment Regulation," Press Release, June 26, 2012, http://www.ed.gov/news/press-releases/five-percent-career-training-programs-risk-losing-access-federal-funds-35-percen (accessed July 6, 2012).

[1557] US Department of Education, Federal Student Aid Data Center, *2011 Gainful Employment Informational Metrics*, http://federalstudentaid.ed.gov/datacenter/gainful1.html (accessed July 6, 2012); See also Libby A. Nelson, Missing the Mark on 'Gainful,' *Inside Higher Ed*, June 26, 2012, http://www.insidehighered.com/news/2012/06/26/education-department-releases-data-gainful-employment-rule (accessed July 6, 2012). On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. *Association of Private Colleges and Universities v. Duncan*, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).

[1558] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 18, 2012).

| Status of Students Enrolled in Corinthian Colleges, Inc. in 2008-09, as of 2010 | | | | | | |
|---|---|---|---|---|---|---|
| **Degree Level** | **Enrollment** | **Percent Completed** | **Percent Still Enrolled** | **Percent Withdrawn** | **Number Withdrawn** | **Median Days** |
| Associate Degree | 44,436 | 6.9% | 26.6% | 66.5% | 29,547 | 124 |
| Bachelor's Degree | 3,139 | 6.1% | 34.8% | 59.2% | 1,889 | 138 |
| Certificate | 83,291 | 56.6% | 1.7% | 41.7% | 34,714 | 79 |
| All Students[1559] | 130,920 | 39% | 11% | 50.5% | 66,150 | 101 |

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Information Corinthian provided to the committee indicates that, of the 130,920 students who enrolled at Corinthian in 2008-9, 50.5 percent, or 66,150 people, withdrew by mid-2010. The median withdrawn student was enrolled for just over 3 months.[1560] Overall, Corinthian's retention rate was slightly lower than the average withdrawal rate of 54 percent across the 30 companies. Corinthian's Associate degree student withdrawal rate was one of the 10 worst among the companies examined, with 66.5 percent withdrawing. The smaller Bachelor's program also had a high withdrawal rate of 59.2 percent.

Because two-thirds of Corinthian's students enrolled in Certificate programs, with a much lower withdrawal rate of 41.7 percent, the overall withdrawal rates are better than might be expected. However, the withdrawal rate for Certificate programs is still higher than the average of 38 percent. The Certificate students who withdrew did so very quickly, with the median student withdrawing in 2.5 months, one of the fastest rates noted. While a rapid withdrawal rate reduces the debt load for the student, it also suggests problems with the quality of the program and raises questions about recruitment practices.

## Student Loan Defaults

The number of students leaving Corinthian with no degree correlates with the exceptionally high rates of student loan defaults by students who attended Corinthian. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.

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[1559] The Committee analyzed data for students who enrolled at each company between July 1, 2008 and June 30, 2009. This dataset did not include Corinthian students who enrolled prior to July 1, 2008. The inclusion of these students could potentially have resulted in a lower overall percentage of students withdrawing.

[1560] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1561] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1562] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[1563] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[1564]

Beginning in 2014, any school will lose eligibility for Federal financial aid if its 3-year cohort default rate is greater than 40 percent in a single year, or if the cohort default rate is greater than 30 percent for each of the 3 most recent years.[1565] Corinthian's trial 3-year cohort default rates for students entering repayment in 2008 were over 40 percent at 13 campuses and over 30 percent at an additional 65 campuses.[1566] Further, all 14 of Corinthian's Everest campuses in California, as well as two Heald and two Wyotech campuses in California, were recently removed from eligibility for California's student grant program because those campuses had a default rate of more than 24.6 percent.[1567]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent. This change represents a 32.6 percent increase over 4 years.[1568] Corinthian's default rate has similarly increased, growing from 22.9 percent for students entering repayment in 2005 to 36.1 percent for students entering repayment in 2008.[1569] This is by far the highest default rate of any publicly traded company examined, and the second highest overall.[1570] The default rate is 64 percent higher than the rate for all for-profit colleges. While the company's high default rate is likely due in part to the high cost of Corinthian' programs, it also raises serious questions regarding the quality of the programs Corinthian provides, and whether its students who complete programs earn high enough wages to repay the debt they take on. Had the 3-year cohort default rate provision been in effect in 2011, Corinthian would have faced the loss of access to title IV financial aid dollars.

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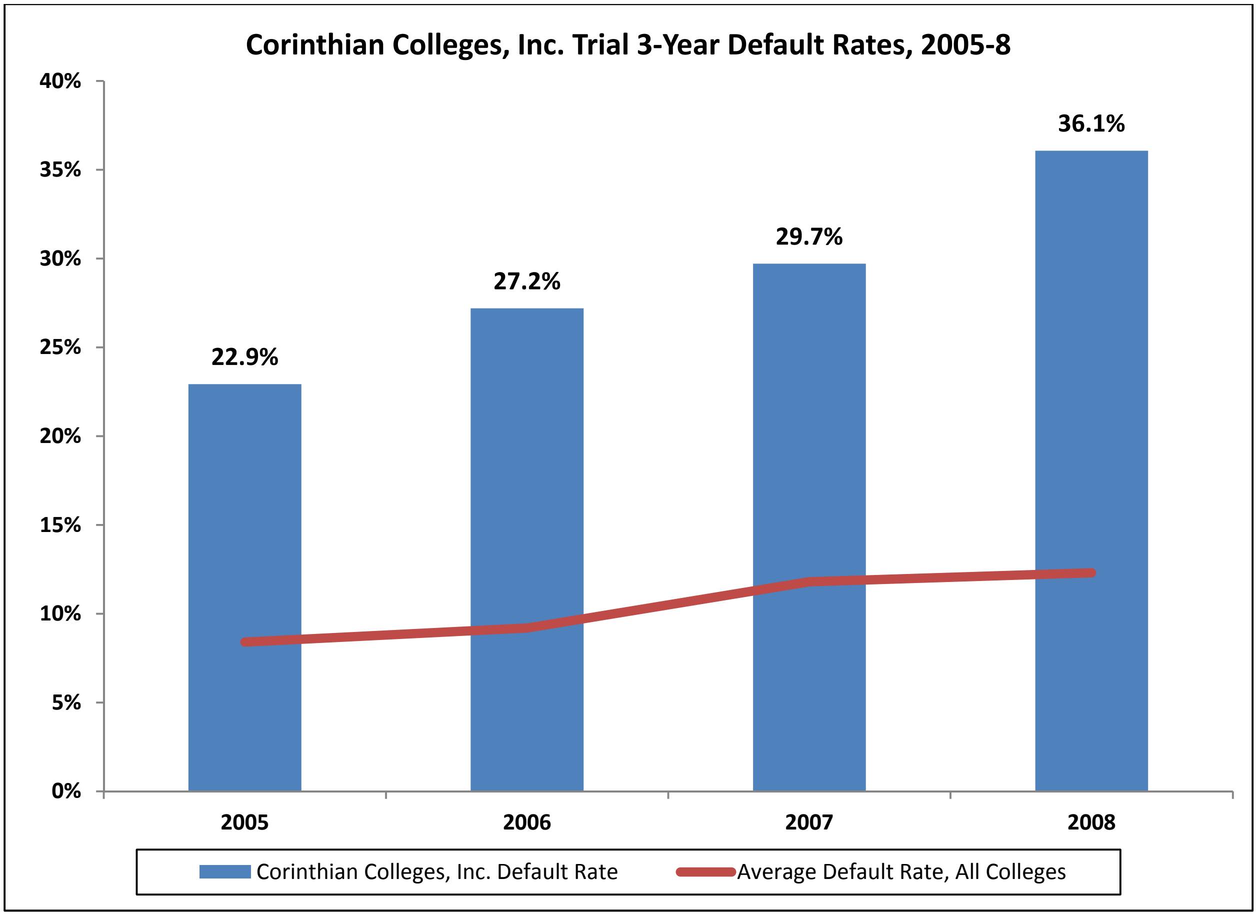
1561 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector.
1562 Id.
1563 Id.
1564 Id.
1565 H.R. 4137, *The Higher Education Opportunity Act*, 110th Congress, (2008).
1566 Department of Education 3-year cohort default rate, for students entering repayment in fiscal year 2008.
1567 Corinthian owns more than one-fourth of the schools removed from the Cal Grant program. Nanette Asimov, "Some For-Profit Colleges Booted from Cal Grants," *San Francisco Chronicle*, February 6, 2012, http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2012/02/05/BAU11N1V83.DTL (accessed May 14, 2012).
1568 Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008. Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-08, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.
1569 Department of Education consolidated cohort default rates. In March 2012 Corinthian announced that its 2009 3-year default rate had fallen by 7.3 percent to 28.8 percent.
1570 Med-Com or Drake University has the highest 3-year default rate.




The default picture at some individual campuses is particularly dire. Corinthian's Everest Institute campus in San Antonio, TX, had 32.7 percent of its students default within 3-years for students entering repayment in 2005. That campus' proportion of students defaulting jumped to 54.5 percent for students entering repayment in 2008. Aggressive tactics led to a significant drop, though to a still high 37 percent of students from the campus in default from the 2009 cohort.[1571] Six additional campuses also had draft 2009 cohort default rates at or above 35 percent, according to the company's March 2012 SEC filings: Everest College in Los Angeles, CA (37 percent); Everest College in Ontario, CA (35.4 percent); Everest College in Renton, WA (37.2 percent); Everest College in Resada, CA (35 percent); Everest College in Thornton, CO (35.2 percent); and WyoTech in Long Beach, CA (36.6 percent).[1572]

## Default Management

Corinthian has focused significant resources on finding ways to eliminate students from its reported default rates. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, many for-profit colleges appear to be investing in aggressive tactics for the sole purpose of ensuring that borrowers do not default within the 3-year regulatory window.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. While the use of deferment and forbearance is fairly widespread throughout the sector, documents produced indicate that a number of companies also pursue default management strategies that include loan counseling, education, and

[1571] Corinthian Colleges, Inc., Form 8-K, June 30, 2012.
[1572] Id.

alternative repayment options. Default management contractors are paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window in which the Department of Education monitors defaults.

Forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Confronted with a default rate that was beginning to cause investor concern, Corinthian executives announced in 2010 that they would start investing $10 million per year in their existing default management program.[1573] The company has been up front that those efforts are focused on moving students into forbearance or deferment, rather than counseling students on how to begin making payments on their loans. As Corinthian executives told investors in May 2011, "Forbearance, as you well know, is a pretty easy, just a question you have to agree to it and you're on your way" [sic].[1574] The company made it clear that while the company was seeing benefits from the effort, the number of students *repaying* their loans changed little: "Our payment rate really has not moved a whole heck of a lot from where it was prior to this effort." [1575]

Like many other for-profit colleges, Corinthian contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who were approaching default.[1576] Corinthian also hired two additional contractors to manage their default rates and instituted an in-house effort as well.[1577] Documents indicate GRC devoted 60 full-time employees to call former Corinthian students who were late making payments but not yet in default. The two additional firms, ROI and TEAM Enterprises, sent out 30 or more people to knock on former students' doors to secure "cures." [1578] This same document reveals that students in late stages of delinquency but not yet in default—when they are the biggest threat to Corinthian's default rate—could be contacted up to 110 times per month.[1579] Another internal document shows that, in order to achieve the company's desired default rate, the call center run by GRC would make between 2 and 2.5 million calls a year, or 429 calls per employee per day to former Corinthian students.[1580]

Corinthian also built its own internal default management operation, complete with a call center and dozens of employees.[1581] Compensation was directly tied to the number of students an employee successfully eliminates from the company's default rate. Emails show that managers pushed employees to secure as many "cures" as possible. "Team Central . . . you did it!" reads one email sent to dozens of

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[1573] Corinthian Colleges, Inc., May 4, 2010, Q3 Investor Call.
[1574] Corinthian Colleges, Inc., May 3, 2011, Q3 Investor Call.
[1575] Id.
[1576] While a "cure" means that a student is moved from delinquency to forbearance, deferment, or payment status, few students are actually being placed in payment status.
[1577] Corinthian College, Inc., Internal Default Prevention Operations Presentation (CCi-00056216) discussing "FY2010 Key Accomplishments"; see also Corinthian Colleges, Inc., Contract with GRC (CCi-00067423; Corinthian Colleges, Inc. Internal E-mail, January 18, 2012, *Update on Outside Default Aversion Vendors & Student Loan Specialist Team* (CCi-00067498).
[1578] Id.
[1579] Id.
[1580] Corinthian Colleges, Inc., *Default Prevention Staff Presentation* (CCi-00057049).
[1581] Corinthian College, Inc., *Default Prevention Operations Presentation* (CCi-00056216).

line-level default management employees, "We cured 243 students on Wednesday . . . our Division is leading CCi and that is a direct reflection of your daily efforts to drive down our CDR." [1582]

Emails also demonstrate a willingness to reprimand if targets are not hit: "Tuesday saw the lowest number of staff calling in the past several days. This led to less calls and less students we talked to. We all know two truths: This must be a campus-wide effort and this is definitely a numbers game [sic]."[1583] In an internal training presentation, the last step when contacting a former student is to "close the sale".[1584] Corinthian also began offering students gift cards to McDonald's in February 2010, for campuses with high default rates, to incentivize students to contact the default management department.[1585] The campaign was conducted by email and mobile phone text messages, which explicitly referred to postponing student loan payments.[1586]

These investments in default rate management are working.[1587] In the company's August 2011 investor call, the CFO forecast that the company expected to lower its average default rate from 36.1 percent for students entering repayment in 2008 to between 18-20 percent by the 2010 cohort.[1588] In March 2012, the company announced progress towards this goal, with a 2009 rate of 28.8 percent a 1-year decrease of 7.3 percent.[1589] Additionally, executives recently announced that these efforts have resulted in a reduction of the 2-year default rates from 21.5 percent to 6.7 percent between the 2009 and 2010 cohorts.[1590]

Corinthian was especially successful in reducing the default rate of its worst performing OPEIDS. The company went from 13 to 0 OPEIDs above 40 percent, and 29 to 7 OPEIDs above 35 percent, significantly reducing their risk of violating the cohort default rate rule.[1591]

| Corinthian Colleges Institutions by Default Rate | | |
|---|---|---|
| | **2008 3-Year Default Rates** | **2009 3-Year Default Rates** |
| Number of Institutions with a Default Rate above 40 Percent | 13 | 0 |
| Number of Institutions with a Default Rate above 35 Percent | 29 | 7 |
| Number of Institutions with a Default Rate above 30 Percent | 36 | 25 |
| Number of Institutions with a Default Rate above 25 Percent | 40 | 36 |
| Number of Institutions with a Default Rate below 25 Percent | 9 | 13 |

This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools

1582 Corinthian Colleges Internal E-mail, April 29, 2010, *CDR Daily Activity 4-28-10* (CCi-00068416).
1583 Corinthian Internal Email, April 2010, re: *CDR Daily Activity 4-20-10* (CCi-00068830).
1584 Corinthian Colleges, Inc., *Counseling At Risk Borrowers* (CCi-00056493).
1585 Corinthian Colleges, Inc., January 28, 2010, *E-mail and Text Incentive Plan* (CCi-00056773). The company notes that this plan was altered before implementation.
1586 Id.
1587 On February 28, 2012, Corinthian announced the sale of Everest College Campuses in Hayward, San Jose, San Francisco, and the Wilshire Area of Los Angeles. Three of the four sale schools have 3-year CDRs over 30 percent. Corinthian also announced the closure of Everest Campuses in Ft. Lauderdale, Decatur, and Arlington for falling below the company's student outcome or financial performance standards. The sale or closure of these seven campuses is likely to have a further positive effect on Corinthian's CDR rates.
1588 Corinthian Colleges, Inc., August 23, 2011 Q4 Investor Call.
1589 Corinthian Colleges, Inc., Form 8-K, March 5, 2012.
1590 Corinthian Colleges, Inc., Form 8-K, February 28, 2012.
1591 For some purposes including cohort default rates, the U.S. Department of Education identifies schools by "Office of Postsecondary Education Identification" number (OPEID). One OPEID number may consist of a main campus and branch campuses.

actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

## Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures. Unfortunately, despite repeated requests and in contrast to most other companies Corinthian failed to produce student complaints.[1592] By looking at the instructional cost that all sectors of higher education report to the Department of Education, it is possible to compare spending on actual instruction.

Corinthian spent $3,969 per student on instruction in 2009, compared to $2,465 on marketing and $998 on profit.[1593] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. Thus Corinthian's per student spending is in the upper range of the for-profit colleges the committee examined. In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction, while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. By comparison, on a per student basis, the public University of California in Los Angeles spent $30,331 per student on instruction, the private University of Southern California spent $35,920, and local community college Orange Coast College spent $3,272 per student.[1594]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools examined by the committee, 80 percent of the faculty is part-time, with higher percentages in some companies.[1595] In 2010,

[1592] The committee sought student complaints from each of the 30 companies examined, which provided valuable information regarding the quality concerns, if any, of students. However, Corinthian declined to comply with this part of the committee's document request, and further failed to comply after follow-up conversations with committee staff noted the company's omission.

[1593] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment. Because Corinthian purchased Heald Colleges recently, this data excludes enrollment from those campuses.

[1594] Senate HELP Committee staff analysis. See Appendix 23.

[1595] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

Corinthian employed 2,577 full-time and 3,857 part-time faculty, meaning that it employed more full-time faculty than the average.[1596]

Nonetheless, a review of documents from an undercover GAO investigation raises serious questions about the academic quality of Corinthian's programs. In the investigation, undercover GAO employees enrolled in 12 different online colleges using fictitious identities and academic credentials, including an online program at Corinthian's Everest University.[1597]

The course structure at Everest consisted of self-directed reading from books and Web sites, online discussion-threads, online tests, individual written assignments or power-points and some courses included group assignments.[1598] Interaction with the teacher was primarily through text-based chat rooms, discussion posts and direct emails. Few of the courses featured video or audio lecture components.

The GAO's employees used various tactics to examine academic standards, including submitting obviously plagiarized, non-responsive or objectively incorrect work and failing to submit assignments. The employees' experiences reflect, in many cases, a lack of academic integrity and rigor on the part of Corinthian's Everest College, as well as other for-profit schools.[1599]

GAO employees enrolled in three different courses at Corinthian's Everest University.[1600] These employees repeatedly submitted plagiarized work for each of those courses. Two of the three courses granted full or partial credit for multiple plagiarized assignments, and instructors in one of those courses never acknowledged the plagiarism in any way. In line with the methodology established by GAO the student ultimately failed the courses, the failure to discipline the student is contrary to Everest's academic honesty policy which provides for discipline ranging from expulsion to reduced credit.[1601]

These failures were not due to the plagiarism being difficult to detect. For instance, as the main component of an assignment for a psychology course, students were asked to answer the question: "Why do psychologists study the brain and the nervous system?" The agent responded with the following, copied verbatim from Answers.com, with a link to the page included:

> It is because our body affects our behavior, cognition, perception. different moods and certain reactions that we do are governed by certain neurotransmitters that depends on the brain and the nervous system, so that it will be of use [sic]. The brain is the command center of our whole body so whatever its state or nature is very important in

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[1596] Id.

[1597] GAO employees attempted to enroll at 15 different institutions using fictitious (and unverifiable) proof of graduation from high school or its equivalent. Only 3 of the 15 schools declined or rescinded the students' admission as a result of those unverifiable credentials, while the other 12 institutions allowed admission. *See* U.S. Government Accountability Office, *For Profit Schools: Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges*, Report to the Chairman, Committee on Health, Education, Labor and Pensions, October 2011, http://www.gao.gov/assets/590/586456.pdf (accessed, June 18, 2012) [hereinafter GAO II].

[1598] GAO Investigation Documentation, CFS 2167 Computer Application Course Syllabus (DALLAS-334171).

[1599] GAO additionally provided work papers to the Chairman, including screenshots and printouts of submitted coursework and communications with the school.

[1600] While the identity of individual companies were not made public at the time of the release of the GAO report *For-Profit Schools - Experiences of Undercover Students Enrolled in Online Classes at Selected Colleges*, the information was provided to the committee. Corinthian-owned Everest College was school number 7 in the report.

[1601] GAO II at 20. While GAO's undercover employees received full or partial credit for many plagiarized assignments, none received passing final grades for a course. The employee's failing grades were partly due to their submission of objectively incorrect or non-responsive assignments, and partly due to their failure to submit any work for other assignments.

understanding behavior and mental processes. In addition, psychology is the study of behavior and mental processes so it makes sense,

http://wiki.answers.com/Q/Why_do_psychologist_study_the_brain_and_nervous_system [1602]

The professor awarded a B+ for the assignment and provided the following feedback regarding the copied material: "you did an excellent job detailing this post-please do not use wiki or other sources which are not credible such as about.com or answerbag." [1603] The professor did not note the plagiarism in this or several other assignments during the course. After consistently submitting plagiarized work each week, the professor finally noted the misconduct during the final week of the course, and submitted an incident report to the school.[1604] However, the school did not follow up with disciplinary action.[1605]

The professor of a Computer Science course failed to notice plagiarized submissions that were copied verbatim from other students' discussion posts for the same assignment. For example, for a discussion post assignment in a Computer Science course at Everest University, the agent copied a short post submitted by another student 24-hours earlier.[1606] The professor gave a low grade for the post (10/25), but only critiqued it for being short and incomplete.[1607]

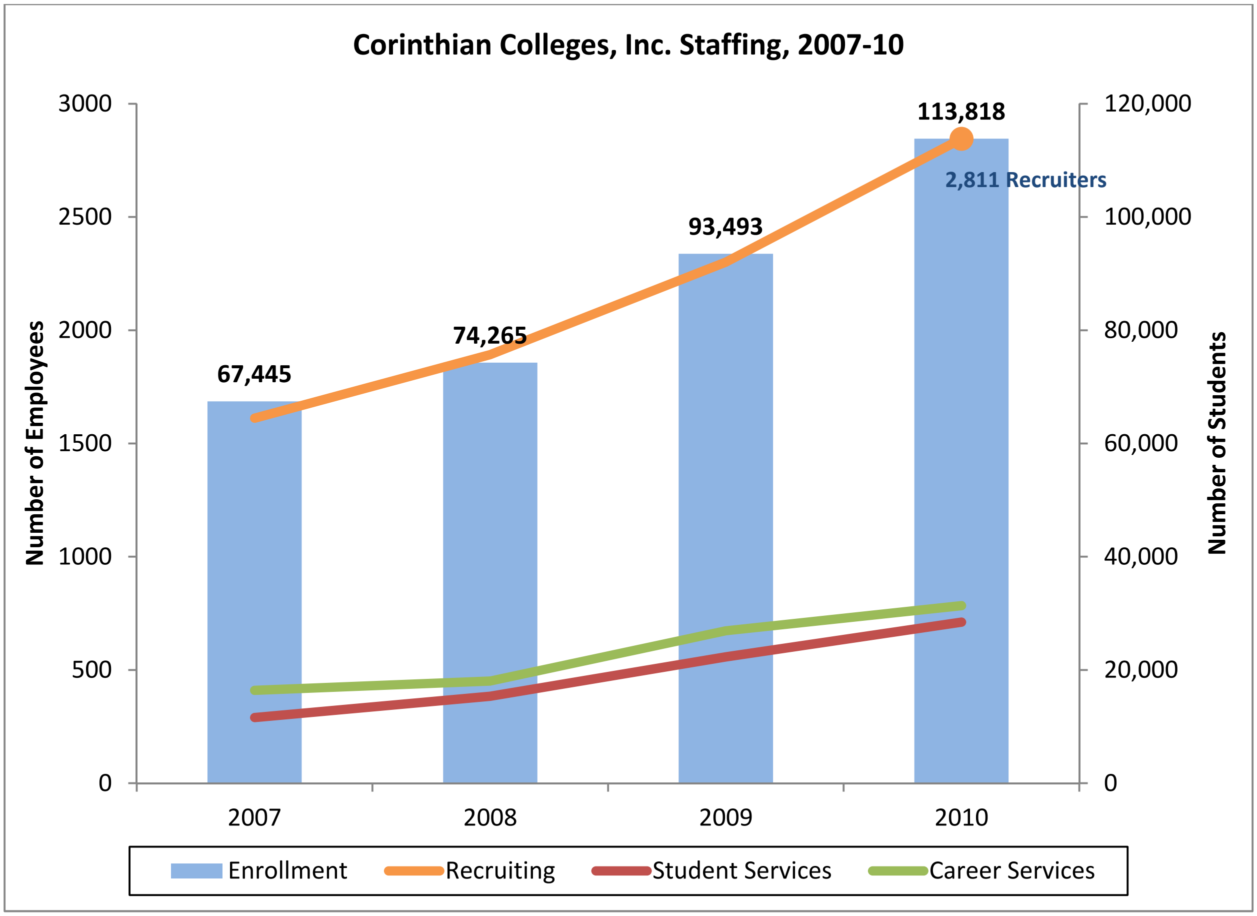
The most responsible reaction to the plagiarized work came from a teacher of a "Learning Strategies and Techniques" course, who consistently noted the dishonest conduct and gave little or no credit for plagiarized assignments. However, even though the teacher filed incident reports for multiple assignments, Everest failed to follow-up with disciplinary action.[1608]

Further, because of the structure of these courses, there is often little interaction with teachers. What interaction does occur is typically via email or text-chat, but those communications often reflect little time or attention from the teacher. Given the examples described above, it is unclear whether some teachers even reviewed assignments prior to awarding grades for those assignments. While other teachers regularly offered help to students, at least one seemed to do so by copying-and-pasting the exact same feedback for multiple assignments, including identical grammatical and typographical errors in the teacher's comments.[1609] This teacher included the following feedback for 5 of 10 discussion assignments, usually with just one or two additional sentences identifying the assignment in question:

> Remember that you must response to entire of the main question as well as two responses to other people's posts. As we learn from each other responses to the course material. Please let me know if there is any assistance I can provide to assist you in succeeding in the course next discussion [sic].[1610]

[1602] GAO Investigation Documentation, CFS 2167 Computer Application Course Syllabus (DALLAS-334889).
[1603] Id.
[1604] GAO Investigation Documentation, Week 2 Graded Activity: Class Discussion (DALLAS-334889).
[1605] GAO II.
[1606] GAO Investigation Documentation, Week 5 Graded Activity: Class Discussion (DALLAS-336134).
[1607] GAO Investigation Documentation, Everest Professor Feedback 335023 (DALLAS-335023).
[1608] GAO Investigation Documentation, Everest Professor Feedback 335083 (DALLAS-335083).
[1609] GAO Investigation Documentation, Everest Professor Feedback 335023 (DALLAS-335023).
[1610] Id.

## Staffing




While for-profit education companies employ large numbers of recruiters to enroll new students, the companies have far less staff to provide tutoring, remedial services, or career counseling and placement. In 2010, with 113,818 students, Corinthian employed 2,811 recruiters, 784 career services employees, and 711 student services employees.[1611] That means each career counselor was responsible for 145 students, and each student services staffer was responsible for 160 students. Meanwhile, the company employed one recruiter for every 40 students.

### Career Services

For-profit schools promote themselves as career-oriented, skill-focused training centers. Indeed, most for-profit education advertising focuses on "getting the job" after graduating from school. With one career services employee for every 145 students, Corinthian has a relatively robust career services program compared to other education companies examined the committee. However, investigations from the attorney general of California and the Texas Workforce Commission have both documented serious problems with the integrity of the campuses' job placement claims. Those investigations are discussed below in the section on Enforcement Actions.

[1611] Senate HELP Committee staff analysis of information provided to the Committee by the company pursuant to the Committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

## Regulatory Strategies

For-profit education companies are subject to two key regulatory provisions: that no more than 90 percent of revenue come from title IV Federal financial aid programs, and that no more than 25 percent of students default within 2 years of entering loan repayment. Many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

Corinthian is clearly struggling to ensure that the amount of title IV Federal financial aid dollars it receives does not exceed 90 percent ("90/10"). Corinthian has been very upfront that it raised tuition as a means to comply with 90/10. The result is that the campuses' Certificate and Associate programs have some of the highest tuition of any comparable programs at either non-profit or for-profit colleges. One financial analyst, Ariel Sokol, called Corinthian's 2011 decision to raise tuition 12 percent "perhaps the most counterproductive public negotiating tactic that we've ever witnessed." [1612] He noted Corinthian announced the tuition increase "as if they are somehow the victims" when in reality the company knowingly pursued this kind of a revenue growth strategy notwithstanding the existence of 90/10.[1613] "It's not as if it happened by surprise," and now, "students are being burdened with debt they can't repay."[1614] For the company, "that's not a viable long-term strategy." [1615]

Documents provided by the company show that some of the school's administrators were concerned about tuition increases and the effect it would have on students. The director of one of the company's programs sent an email in May of 2008 raising those concerns. "I know that for the RN program we have seen more credit worthy students and some are paying over $600/month cash. Again with the [6% tuition increase] I don't know if they could continue to do this." [1616] The company's response to this concern was to claim: "The only way we have available to us" to manage 90/10 exposure "is to create a gap by raising tuition." [1617]

Tuition is so high that Federal financial aid will not always cover the program costs, so students must often find alternate financing. Thus, Corinthian offers students institutional loans to help cover the gap. Under the Higher Education Act (HEA), schools were allowed to count 50 percent of institutional loans to the non-Federal revenue side of the 90/10 ratio from July 1, 2008 until July 1, 2012.[1618] Corinthian partnered with a third-party lender to create the Genesis loan program in 2008. Corinthian estimates that 55 percent of those loan balenceswill default at some point.[1619] Nonetheless, the CFO of Corinthian explained to investors: "under the current rules we can have these institutional loans count as part of the 10 percent. So, again, we get the benefit of the incremental dollars net of the discount. So if

[1612] Goldie Blymenstyk, "Colleges Scramble to Avoid Violating Federal-Aid Limit: For-Profits Tactics to Comply With 90/10 Rule Raise Questions," *The Chronicle of Higher of Education*, April 2, 2011, http://chronicle.com/article/Colleges-Scramble-to-Avoid/126986/ (accessed May 8, 2012).
[1613] Id.
[1614] Id.
[1615] Id.
[1616] Corinthian Colleges Internal E-mail, May 13, 2008, *FW: Tuition Increase Nursing* (CCi-00053436). The company notes that the final tuition increases for 2008 differ from what was reflected in this document.
[1617] Id.
[1618] The Act allows schools to count the "net present value" of the loans at the time of disbursement. The net present value is an estimation of the ultimate value of the payments over the life of the loan taking into account defaults and inflation. The Education Department later enacted a regulation allowing schools to simply count 50 percent of the value of an institutional loan instead of going through the net present value calculation. Most schools have elected this approach.
[1619] Corinthian Colleges, Inc., August 24, 2009, Q4 Investor Call.

on an ongoing basis 45 percent of that price increase came to us after discount, we get the benefit of that in our 90/10 calculation as part of the 10 percent." [1620]

In 2009, Corinthian Colleges lent $65 million to its students through the Genesis program at an average interest rate of 14.8 percent, with some students paying as much as 18 percent.[1621] For comparison, the Federal Reserve calculated that the average interest rate on a credit card in 2009 was 13.4 percent, and the interest rate on a Federal Stafford Loan was 5.6 percent (currently 3.4 percent).

Corinthian partnered with another third party lender, ASFG, in June of 2011 to arrange a more complicated loan program.[1622] Corinthian was clear about the reasons for entering into the transaction; the company told investors: "the ASFG arrangement helped us meet our 90/10 requirement of generating at least 10 percent of revenue from non-title IV sources." [1623] The arrangement called for $450 million to lend to Corinthian students over 2 years. According to ASFG's Web site, their loans carry an interest rate of 11.9 to 17.9 percent, nearly three and a half times the current Federal subsidized interest rate of 3.4 percent.[1624] Corinthian is obligated to purchase every loan on which no payment has been made for 90 days.

The company expects that it will be obligated to buy back about 55 percent of the ASFG loans, in line with its previous Genesis institutional loan program in which the company set the reserve at 55 percent based on their own internal analysis of expected defaults.[1625]

## Enforcement Actions

In 2007, the California attorney general entered into a settlement with Corinthian schools after establishing evidence that the company deliberately and persistently misled prospective students about the schools' placement rates.[1626] Margaret Reiter, former supervising deputy attorney general, testified at the committee's June 24, 2010, hearing that every single program the AG examined had inflated its placement numbers by as much as 37 percent. For most programs, only a third to a half of students obtained employment. Ms. Reiter further testified that, in her long experience with consumer fraud cases, the for-profit college industry was among the "most persistent, egregious, and widespread" consumer abuses she had ever seen.[1627]

In 2010, Corinthian also admitted that administrators at one of its Everest College campuses in Texas falsified the employment records of 288 graduates over 4 years. Of those graduates, 176 allegedly worked for a business that had been created by a friend of the school's career services director; this business did not have any actual employees. The other 119 graduates were said to be working for a company that only employed a total of seven Everest College students.[1628]

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[1620] Corinthian Colleges, Inc., February 1, 2011 Q2 Investor Call.
[1621] Note that in 2010 Corinthian has since lowered its rate to 6.8 percent.
[1622] However, Corinthian does not directly issue these loans.
[1623] Corinthian Colleges, Inc., August 23, 2011, Q4 Investor Call.
[1624] See, for example, FinAid, *Private Student Loans*, The SmartStudent Guide to Financial Aid, http://www.finaid.org/loans/privatestudentloans.phtml.
[1625] Corinthian Career Colleges, Form 8-K, June 30, 2011.
[1626] Margaret Reiter, Testimony before the Senate Committee on Health, Education, Labor, and Pensions, *Hearing on Waste, Fraud, and Abuse in the For-Profit Education Sector*, 112th Congress (2010).
[1627] Id.
[1628] HigherEd Watch, "Statement by Corinthian Colleges Regarding Everest College: Arlington Mid-Cities Campus," October 11, 2010,

As of 2012, the attorney general of Florida is investigating Corinthian's Everest College regarding "Alleged misrepresentations regarding financial aid; alleged unfair/deceptive practices regarding recruitment, enrolment, accreditation, placement, graduation rates, etc." [1629] The U.S. Consumer Financial Protection Bureau is also investigating Corinthian to determine whether the company engaged in "unlawful acts or practices relating to the advertising, marketing, or origination of private student loans." [1630]

## Conclusion

Corinthian charges some of the highest tuition prices of any of the companies the committee analyzed. Until new regulations requiring cost disclosures went into effect, it was very difficult to accurately determine the cost of Corinthian's programs. The high cost of Corinthian's programs is particularly troubling given that the bulk of the programs are non-degree Certificate and diploma programs and 2-year Associate degree programs that yield lower increases in earning power. The cost of attending Corinthian is so high that the company has created its own loan program to enable students to borrow money in excess of Federal lending limits.

The company has some of the highest student withdrawal rates of any company examined, with 67 percent of Associates students who enrolled in 2008-9 leaving the company by mid-2010. The company also has by far the highest rate of students defaulting on student loans of any publicly traded education company, with 36 percent of students who entered repayment in 2008 defaulting with 3 years of leaving the company's schools. This likely reflects the high cost of attending and the inability of some students to find jobs that allow then to repay the debt they incur. Corinthian has engaged in a transparent effort to lower its rate of student defaults by aggressively working to contact students and have them enter forbearance and deferment but it is unclear whether those policies lead to more students repaying loans or lead to future defaults. It is unclear whether taxpayers or students are obtaining value from the $1.7 billion investment that taxpayers made in Corinthian in 2010.

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http://higheredwatch.newamerica.net/sites/newamerica.net/files/articles/1011_corinthian_statement%5B1%5D.pdf (accessed June 18, 2012).

[1629] Florida Office of the Attorney General, *Active Public Consumer-Related Investigation*, http://www.myfloridalegal.com/lit_ec.nsf/investigations/3B283CFAC6AF9709852577C00072A46E (accessed June 18, 2012).

[1630] Corinthian Colleges, Inc., Form 10-Q, May 4, 2012.