

SEP 16 2014

CFPB Sues For-Profit Corinthian Colleges for Predatory Lending Scheme

Bureau Seeks More than \$500 Million In Relief For Borrowers of Corinthian's Private Student Loans

WASHINGTON, D.C. — Today, the Consumer Financial Protection Bureau (CFPB) sued for-profit college chain Corinthian Colleges, Inc. for its illegal predatory lending scheme. The Bureau alleges that Corinthian lured tens of thousands of students to take out private loans to cover expensive tuition costs by advertising bogus job prospects and career services. Corinthian then used illegal debt collection tactics to strong-arm students into paying back those loans while still in school. To protect current and past students of the Corinthian schools, the Bureau is seeking to halt these practices and is requesting the court to grant relief to the students who collectively have taken out more than \$500 million in private student loans.

“For too many students, Corinthian has turned the American dream of higher education into an ongoing nightmare of debt and despair,” said CFPB Director Richard Corday. “We believe Corinthian lured consumers into predatory loans by lying about their future job prospects, and then used illegal debt collection tactics to strong-arm students at school. We want to put an end to these predatory practices and get relief for the students who are bearing the weight of more than half a billion dollars in Corinthian’s private student loans.”

The complaint against Corinthian can be found

at: http://files.consumerfinance.gov/f/201409_cfpb_complaint_corinthian.pdf

Corinthian Colleges, Inc. is one of the largest for-profit, post-secondary education companies in the United States. The publicly traded company has more than 100 school campuses across the country. The company operates schools under the names Everest, Heald, and WyoTech. As of last March, the company had approximately 74,000 students.

In June, the U.S. Department of Education delayed Corinthian's access to federal student aid dollars because of reports of malfeasance. Since then, Corinthian has been scaling down its operations as part of an agreement with the Department of Education. However, Corinthian continues to enroll new students.

Today's CFPB lawsuit alleges a pervasive culture across the Everest, Heald, and WyoTech schools that allowed employees to routinely deceive and illegally harass private student loan borrowers. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the CFPB has the authority to take action against institutions engaging in unfair, deceptive, or abusive practices. Based on its investigation, the CFPB alleges that the schools made deceptive representations about career opportunities that induced prospective students to take out private student loans, and then used illegal tactics to collect on those loans. Today's lawsuit covers the period from July 21, 2011 to the present.

Lured Into Loans By Lies

Most students who attend Everest, Heald, and WyoTech schools come from economically disadvantaged backgrounds and many are the first in their families to seek an education beyond a high school diploma. According to internal Corinthian documents, most students lived in households with very low income. Today's lawsuit alleges that the schools owned by Corinthian Colleges, Inc. advertised their education as a gateway to good jobs and better careers. It alleges that throughout the Corinthian schools, consumers were lured into loans by lies, including:

- **Sham job placement rates:** The CFPB alleges that Corinthian's school representatives led students to think that when they graduated they were likely to land good jobs and sufficient salaries to repay their private student loans. But the CFPB believes that Corinthian inflated the job placement rates at its schools. Based on its investigation, the CFPB alleges that this included creating fictitious employers and reporting students as being placed at those fake employers.
- **One-day long "career":** According to the CFPB's investigation, Corinthian schools told students they would have promising career

options with an Everest, Heald, or WyoTech degree. But Corinthian counted a “career” as a job that merely lasted one day, with the promise of a second day.

- **Pay for placement:** The CFPB also alleges that the Corinthian schools further inflated advertised job placement rates by paying employers to temporarily hire graduates. The schools did not inform students about these payments or that these jobs were temporary.
- **Craigslist career counseling:** According to the CFPB’s investigation, the Corinthian schools promised students extensive and lasting career services that were not delivered. Students often had trouble contacting anyone in the career services office or getting any meaningful support. The limited career services included distributing generally available job postings from websites like Craigslist.

Predatory Loans

Tuition and fees for some Corinthian programs were more than five times the cost of similar programs at public colleges. In 2013, the Corinthian tuition and fees for an associate’s degree was \$33,000 to \$43,000. The tuition and fees for a bachelor’s degree at Corinthian cost \$60,000 to \$75,000.

The CFPB believes the Corinthian colleges deliberately inflated tuition prices to be higher than federal loan limits so that most students were forced to rely on additional sources of funding. The Corinthian schools then relied on deceptive statements regarding its education program to induce students into taking out its high-cost private student loans, known as “Genesis loans.” Today’s lawsuit alleges that under the Genesis loan program:

- **Interest rates were more than twice as expensive:** Corinthian sold its students predatory loans that typically had substantially higher interest rates than federal loans. In July 2011, the Genesis loan interest rate was about 15 percent with an origination fee of 6 percent. Meanwhile, the interest rate for federal student loans during that time was about 3 percent to 7 percent, with low or no origination fees.

- **Loans were likely to fail:** Corinthian expected that most of its students would ultimately default on their Genesis loans. In fact, more than 60 percent of Corinthian school students defaulted on their loans within three years. The Everest, Heald, and WyoTech schools did not tell students about these high default rates. Defaulting on private student loans can have grave consequences for consumers, including affecting a borrower's job prospects and making it difficult to get any kind of loan for years.

Strong-Armed by Illegal Debt Collection Tactics

Under the Genesis loan program, nearly all student borrowers were required to make monthly loan payments while attending school. This is unusual; federal loans and almost all other sources of private student loans do not require repayment until after graduation. This put pressure on Everest, Heald, and WyoTech students to come up with funding while attending school. Today's lawsuit alleges that Corinthian took advantage of this position of power to engage in aggressive debt collection tactics. The CFPB alleges that Corinthian's campus staff members received bonuses based in part on their success in collecting payments from students. The debt collection tactics included:

- **Pulling students out of class:** The CFPB's investigation revealed that Corinthian's efforts to collect payments included shaming students by pulling them out of class. Financial aid officers would inform instructors and other staff that students were past due on their Genesis loans. Corinthian schools also required students to meet with campus presidents to discuss the seriousness of the overdue loans. At one Corinthian campus, students and employees referred to one financial aid staff member as the "Grim Reaper" because the staff member so frequently pulled students out of class to collect debts.
- **Putting education in jeopardy:** According to the CFPB's investigation, the Corinthian colleges jeopardized students' academic experience by denying them education until they paid up. They blocked students' access to school computer terminals and other academic resources. The

Corinthian schools also prevented students from attending and registering for class, and from receiving their books for their next classes.

- **Withholding diplomas:** According to the CFPB investigation, Corinthian schools informed students that they could not participate in the graduation ceremony or would have their certificate withheld if they were not current on their Genesis loan in-school payments. In many cases, financial aid staff threatened that if students did not become current on their loans, they could not graduate or start their externships. Some former students stated that Corinthian schools continue to withhold their certificates because they are unable to make payments on their Genesis loans.

Halting Illegal Conduct and Obtaining Relief for Private Student Loan Borrowers

Today's lawsuit seeks, among other things, compensation for the tens of thousands of students who took out Genesis loans. The CFPB estimates that from July 2011 through March 2014, students took out approximately 130,000 private student loans to pay tuition and fees at Everest, Heald, or WyoTech colleges. Some of these loans have been paid back in part or in full; the total outstanding balance of these loans is in excess of \$569 million.

The CFPB is seeking redress for all the private student loans made since July 21, 2011, including those that have been paid off. In its lawsuit, the CFPB is also seeking to keep Corinthian from continuing the illegal conduct described above, and to prevent new students from being harmed.

Today the CFPB is also publishing a special notice for current and former Corinthian students to help them navigate their options in this time of uncertainty, including information on loan discharge options.

The CFPB Notice for Current and Former Corinthian Students can be found at: http://files.consumerfinance.gov/f/201409_cfpb_notice-for-current-and-former-corinthian-students.pdf

The CFPB estimates that there is approximately \$1.2 trillion in outstanding student loan debt, with more than 7 million Americans in default on more than \$100 billion in balances. Students and their families can find help on how to tackle their student debt on the [CFPB's website](#).

The Bureau's complaint is not a finding or ruling that the defendant has actually violated the law.

###

The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.