



STUDENT BORROWER
PROTECTION CENTER

PROTECT BORROWERS

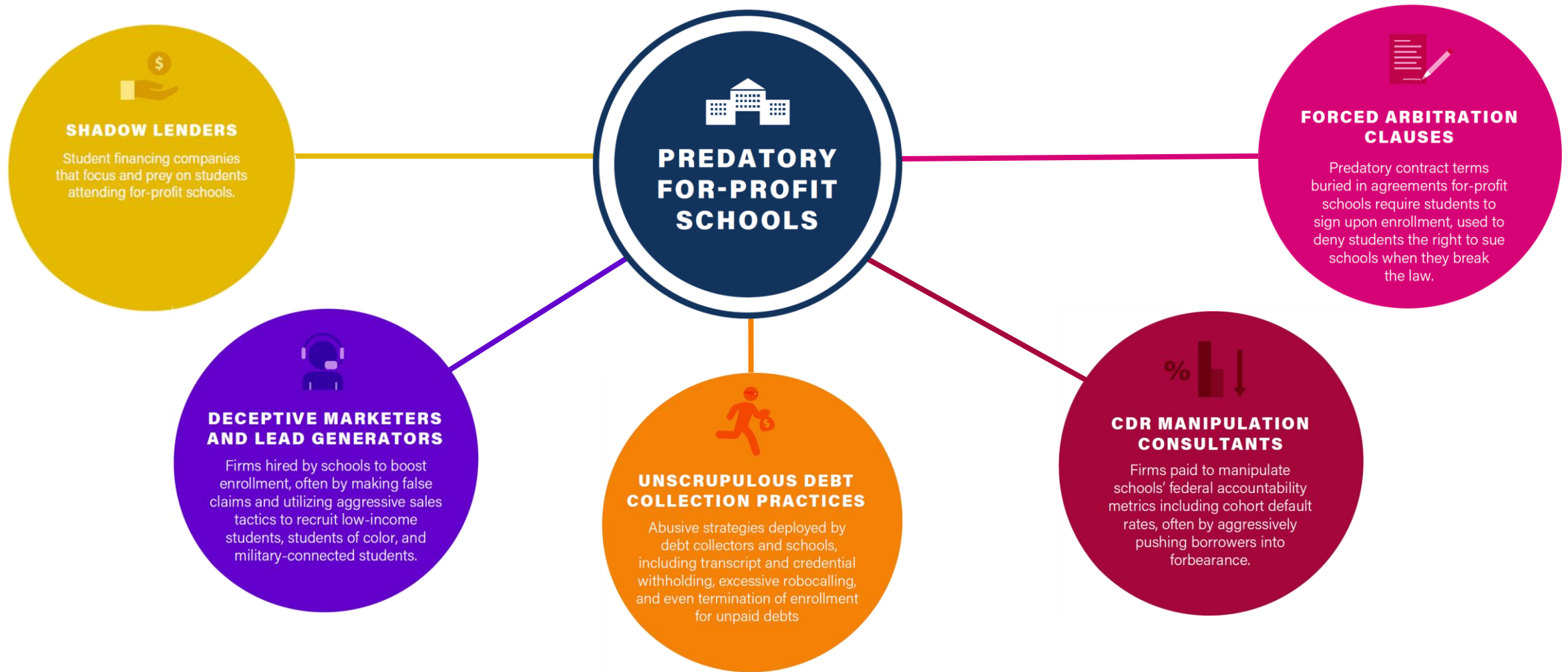
Presentation to the Governor's Task Force on Student Debt

Exploring the ecosystem of companies that allow predatory for-profits to flourish

Presented By Seth Frotman

July 8, 2020

The Web of Companies Allowing For-Profit Schools to Flourish





The Shadow Student Loan Market

Specialty private student lenders that **provide financing for attendees of for-profit institutions:**

- Lend directly to consumers or indirectly through partner schools under “institutional loan” programs
- History of evading state licensing and lending laws, also conduct likely implicating state consumer protection statutes
- Known to target borrowers of color, low income-students, immigrants, and veterans with predatory, high-cost credit

Recent legal action against shadow lenders:

 <p>CONNECTICUT DEPARTMENT OF BANKING</p> <p>CONSENT ORDER: IN THE MATTER OF TFC CREDIT CORPORATION OF CALIFORNIA</p> <p><i>"TFC acted as a student loan servicer in Connecticut without a student loan servicing license..."</i></p> <p>READ MORE</p>	<p>ITT barred from collecting on private student loans</p> <p>Journal Inquirer</p> <p>READ MORE</p>
 <p>FEDERAL TRADE COMMISSION PROTECTING AMERICA'S CONSUMERS</p> <p>FTC Obtains Record \$191 Million Settlement from University of Phoenix to Resolve FTC Charges It Used Deceptive Advertising to Attract Prospective Students</p> <p>READ MORE</p>	<p>INSIDE HIGHER ED</p> <p>Career Education Corp. Settles With States, Forgives Student Debt</p> <p>READ MORE</p>
 <p>NEW YORK STATE</p> <p>DFS superintendent Linda A. Laceywell announces settlement with national student loan servicer of for-profit schools</p> <p>READ MORE</p>	 <p>Corinthian Colleges Students Set to Get \$183 Million Break on Bad Loans</p> <p>READ MORE</p>
<p>Settlement reached in fraud lawsuit over defunct Career Point College</p> <p>mySA</p> <p>READ MORE</p>	<p>State AG sues student loan company, alleging unfair and deceptive practices</p> <p>The Seattle Times</p> <p>READ MORE</p>
 <p>MINNESOTA STATE SUPREME COURT</p> <p>State of Minnesota vs. Minnesota School of Business</p> <p><i>"Respondents [Tuition Options] made loans without the license required by Minn. Stat. § 56.01(a) (2016)."</i></p> <p>READ MORE</p>	<p>THE WALL STREET JOURNAL</p> <p>For-Profit College Company to Refund Students \$23.5 Million in CFPB Settlement</p> <p>READ MORE</p>



Deceptive Marketers and Lead Generators

Lead generation firms are niche “third party servicers” that **employ aggressive tactics to drive students towards for-profit schools.**

- Federal and state law enforcement officials have recently cracked down on lead generation firms for **preying on borrowers of color, servicemembers, and their families** through unfair or deceptive practices, including by [masquerading as career-focused platforms](#) and misleading prospective students about career opportunities
- Lead generation companies are not required to disclose what schools they work for, something that FTC commissioner Rohit Chopra has [highlighted](#) this as a potential area for regulatory intervention



WETA

Is GIBill.com Misleading College-Bound Veterans?

“The company behind GIBill.com, which markets for-profit colleges to veterans, is **under investigation in 15 states.** . . .”



FEDERAL TRADE COMMISSION
PROTECTING AMERICA'S CONSUMERS

FTC Takes Action against the Operators of Copycat Military Websites

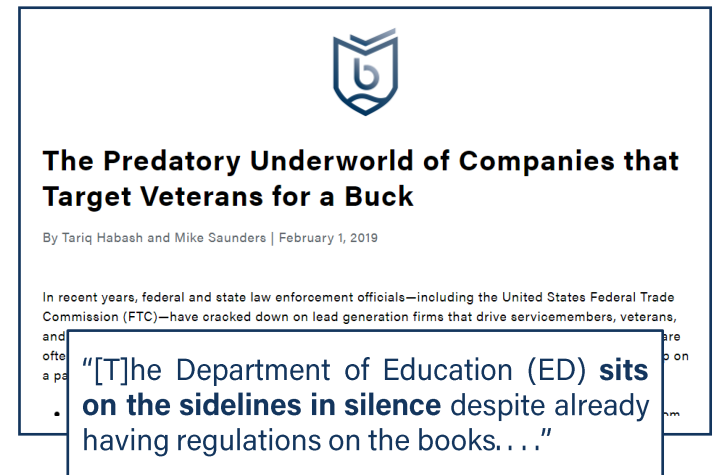
September 6, 2018

Defendants falsely posed as military recruiters to generate sales leads for post-secondary schools, agency alleges

FOR RELEASE

TAGS: deceptive/misleading conduct | Do Not Call | military | Defense | Bureau of Consumer Protection |

“[Caught] **falsely claiming to be affiliated with the military** in order to generate sales leads for post-secondary schools.”



The Predatory Underworld of Companies that Target Veterans for a Buck

By Tariq Habash and Mike Saunders | February 1, 2019

In recent years, federal and state law enforcement officials—including the United States Federal Trade Commission (FTC)—have cracked down on lead generation firms that drive servicemembers, veterans, and other military-connected students to for-profit colleges and universities.

“[T]he Department of Education (ED) **sits on the sidelines in silence** despite already having regulations on the books. . . .”



Unscrupulous Debt Collection Practices

For-profit colleges regularly engage in unscrupulous or abusive debt collection techniques. This includes the practice of **withholding transcript and diplomas from students with past-due financial accounts**. Such action prevents financially strapped students from transferring credits or obtaining the higher-paying job they need to pay their outstanding debts. Lawsuits across the country have identified transcript withholding as a **key tool for predatory for-profit schools to coerce borrowers into payment on bad debts**.

MarketWatch

The obscure debt holding back thousands of students

Published: April 1, 2019 at 1:22 p.m. ET
By Jillian Berman

Schools are holding transcripts as 'collateral' until these debts are paid

"These students are caught in a vicious cycle. **They can't afford to pay off the debt to their school and without their transcript, they can't continue their education to increase their earning potential.**"

THE SALON PROFESSIONAL ACADEMY
Kenosha, WI

"Satisfactory payment of all tuition, fees, and over-contract charges . . . must be met **before receiving a diploma and final transcript(s).**"

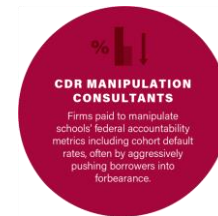
UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

CONSUMER FINANCIAL PROTECTION BUREAU,)
Plaintiff,)
v.) Case No. 1:14-cv-292
ITT EDUCATIONAL SERVICES, INC.)
Defendant.)

COMPLAINT FOR INJUNCTIVE RELIEF AND DAMAGES

The Consumer Financial Protection Bureau (the "Bureau") alleges the following, upon

"A former Vice President of Finance indicated that **withholding materials was 'leverage' that ITT used to pressure the students to meet with Financial Aid staff. . . .**"



Cohort Default Rate (CDR) Manipulation Consultants

Schools often contract with outside consultants to assist in the management of institutions' cohort default rates (CDRs). These consultants **push struggling borrowers into forbearance** rather than toward more beneficial but more complicated income-driven repayment options. This **allows predatory schools to evade accountability**.

GAO: Colleges, Consultants Game Rules to Lower Default Rates

INSIDE HIGHER ED Report says some institutions partnered with consulting firms that improperly pushed borrowers into forbearance, helping colleges avoid sanctions for high default rates but costing students and

By Andrew Kreight

The chief account cuts off federal st students default o

But a Governmen

GAO Report: Shadowy Industry is Manipulating Student Loan Borrowers, Default Rates

Reps. Takano, Default Rate ir

Washington, D.C. – To (D-Calif.) and Rep. Re industry" is using misle the report's findings. M formula, which is a cr pushing borrowers in current CDR formula

The New York Times

Colleges Hire Consultants to Help Manipulate Student Loan Default Rates



"One firm even offered borrowers \$25 gift cards to put their loans in forbearance."

Are For-Profits Manipulating Cohort Default Rates? How Student and School Characteristics Are Related to the Timing of Default

Erin Dunlop Velez^{1,2}

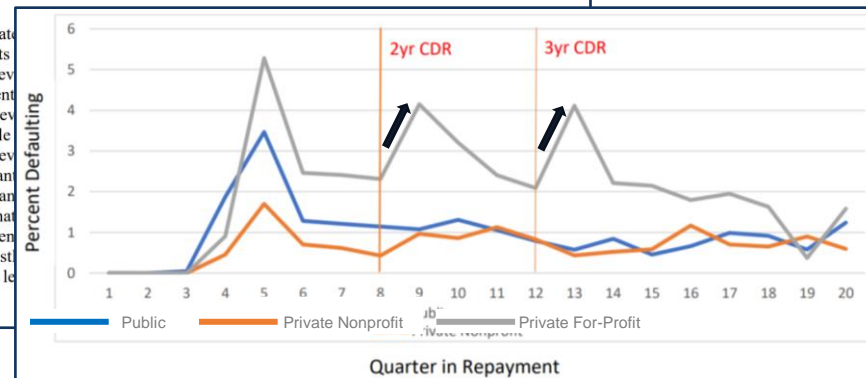
Austin Lacy¹

Johnathan Conzelmann¹

March 2019

Abstract

Cohort Default Rate defaulting students institutions. However their students to ent some descriptive ev manipulation, little released student lev occurring and quan institutions are man we investigate what We find that studen students – are most who are typically le





Forced Arbitration Clauses

For-profit schools bury predatory contract terms in the fine print of their enrollment agreements to **deny students the right to sue their school.**

- Schools like Corinthian Colleges, Globe University, The Art Institutes, South University, and ITT Tech all used forced arbitration to limit public exposure of their abuses
- Secretary DeVos recently finalized rules to roll back protections that temporarily stopped schools eligible for federal aid from using forced arbitration clauses to limit students' rights

TheStreet

Department of Ed Says It Wants Arbitration Clauses Dropped from School Enrollment Contracts

The U.S. Department of Education (ED) released its proposed new regulation that would

"[Senator Dick] Durbin noted that '[i]f Corinthian College students had been able to take their complaints to court and seek compensation directly from the company, the Department may not be faced today with thousands of students seeking federal student loan relief at taxpayer expense.'"

THE CENTURY FOUNDATION

How College Enrollment Contracts Limit Students' Rights

When students go to college, they are confronted with a flurry of paperwork—

"Because of this conflict of interest and other restrictions on consumers' rights in arbitration, forced arbitration clauses have become a shield that invites abuse by businesses, rather than the efficient dispute-resolution process that was originally intended."

JD SUPRA

Dept. of Education finalizes regulations allowing use of pre-dispute arbitration agreements by schools receiving Title IV aid for student borrowers

In less than a year, pre-dispute arbitration agreements will be clearly

"The final Institutional Accountability Regulations include the following significant changes. . . . A school receiving Title IV assistance under the Higher Education Act can require federal student loan borrowers to sign pre-dispute arbitration agreements or class action waivers as a condition of enrollment. . . ."

Thank You



protectborrowers.org