SF weekly.com
News

Stimulus Wreckage

Despite having been accused of deceptive business practices by the attorney general, former students, and ex-employees, Corinthian Colleges are getting millions in federal stimulus dollars.

Published on September 28, 2009 at 1:46pm

By Matt Smith

Martine Leveque moved to the U.S. from Haiti in 1983 and eventually established a Hollywood career writing subtitles in Italian and French for English-language movies. When that business recently moved overseas, she decided to pursue a nursing career, but found that it would take her at least two years to complete all the necessary courses.

"You can't be waiting to start living," the 47-year-old said. So she signed up for nursing classes at a vocational school where she could finish everything in only one year. The school was run by the private, for-profit educational chain Corinthian Colleges, Inc., which operates 106 vocational schools with 86,000 students in the U.S. and Canada.

Rather than improving her life, Leveque says she entered a personal hell of incompetent teachers and insurmountable debt. She's now earning $300 per week as a home care provider, and has no idea how she'll pay off the $40,000 in student loans she took out to cover tuition and other expenses at a one-year licensed vocational nurse program at Corinthian's school in Alhambra.

"Every day, the phone's been ringing at five in the morning, and ringing at 10 at night," she says of the constant calls she gets from bill collectors. "It was a horrible, horrible experience. Every time I think about it, I get bad dreams. I was saying to these people, 'What is going on? What is going on?' How can you take $30,000 from a student for a year of that crappy education?"

Sabyne Francis, one of Leveque's classmates, said she's resigned herself to struggling to pay off her loans. They have consulted with an attorney about filing a class action lawsuit claiming Corinthian misled them into taking on debt to pay for substandard education. "As a student, you've already signed your name on the dotted line," Francis said. "You really have no choice but to just deal with it."

A Corinthian spokesman said that faculty at Leveque's licensed vocational nurse program "met at least the minimum qualifications set by the California Board of Vocational Nursing," which meant they had either a bachelor's degree or a valid teaching credential, and two years of recent experience as a vocational nurse.

For years, Corinthian has been accused of employing aggressive recruiting techniques promising more than its schools can deliver, and then leaving students impossibly deep in debt.

In 2007, Attorney General Jerry Brown filed an unfair business practices lawsuit against Corinthian, alleging that the Orange County–based company placed "intense pressure" on recruiters to meet quotas for incoming students, and that it inflated the number of its graduates who were able to find work in their fields. (The company later paid a $6.5 million settlement without admitting wrongdoing.)

Meanwhile, two employees of Everest College, Corinthian's San Francisco campus, have claimed in a pending whistleblower lawsuit that the company broke federal financial aid rules by giving incentive pay to recruiters based on how many recruits they brought in. Corinthian says the suit has no merit and has asked that it be dismissed.

In August, 13 Corinthian students in Texas filed a lawsuit alleging their teachers "were either unqualified to teach in their ... fields, or simply uninterested in teaching." These were just the latest in a nationwide flood: According to Courthouse News Service, more than 80 such lawsuits have been filed against Corinthian since 2005.

Given all these complaints, I was surprised to discover that Corinthian Colleges, Inc. is a prime beneficiary of the Obama administration's stimulus package.

The $787 billion package — supposedly a paragon of accountability and transparency — included $17 billion to increase by $500 the amount of money each student may receive to pay for college classes under the Pell Grant program, which provides money to low-income undergraduates. Nearly 70 percent of Corinthian students receive such grants, the company reports.

According to data from the Federal Assistance Award Data System compiled on USASpending.gov, $23 million from that stimulus boost has gone to Corinthian schools in California from some $49 million given to the chain nationwide. This is in keeping with a bonanza received by the whole for-profit school industry. The biggest player, the University of Phoenix, has received $400 million in stimulus-linked money so far this year. In San Francisco, Academy of Art College — famous for using an art school to fund a real-estate investment operation — has received $684,264. And the California Culinary Academy, the subject of a 2007 *SF Weekly* exposé alleging the school misled students into assuming massive debt, has gotten $65,357.

But the Pell Grant boost has made San Francisco's Everest College — a fifth-floor suite of converted offices where students take classes to become pharmacy technicians, massage therapists, and medical and dental assistants — a local stimulus champion. In fact, Everest has so far received more stimulus-linked Pell Grant money than any other educational institution in San Francisco: more than $1 million. That's more than the University of California San Francisco medical school, San Francisco State University, or City College of San Francisco.

More than merely pouring cash into the economy, the American Recovery and Reinvestment Act was supposed to help people recover financially. As President Obama said during a March speech, "We're already taking steps to make college or technical training affordable. All in all, we are making college affordable for seven million more students, with a sweeping investment in our children's futures and America's success."

But instead of actually helping prepare people for future success, it is setting up many of them for a lifetime of student debt.

- 

Ads for Everest College target low-income students who qualify for federal aid.

- 

How could this happen? The answer is complicated, but it involves large corporations that have figured out how to work the federal system of student aid, while selling bogus dreams to students.

For those students, the American Recovery and Reinvestment Act will be an antistimulus. We've all seen advertisements for vocational schools in which beaming young men and women brag about getting their lives back on track.

Everest College, which, like other for-profit schools, targets low-income minorities and immigrants, sports what might be one of the least subtle versions of this pitch. In a commercial for the college, a young black man in a red T-shirt, sideways cap, and goatee smirks at the camera in front of what looks like an urban cement wall. "It's about doing something better than you're doing right now," he enthuses. "Why don't you flip up the script? You can create your own story. Graduate! Graduate! Go on to a career. Make more money. Have a better car. Live a better life. Do something. Do something right now. The number's right here. Don't do it for your kids. Don't do it for your mom. Do it for you!"

A popular YouTube parody of the ad has a doppelgänger of the pitchman saying, "I don't care if your grandma is dying right now. You need to take her dying money and go to college."

These appeals have become so commonplace as to seem prosaic. But they are part of a sophisticated marketing operation designed to attract students who qualify for federal assistance. Trade schools like Corinthian train their sales staff to push prospective students into applying for financial aid, which makes up a huge share of schools' revenue. In financial disclosure statements filed with the Securities Exchange Commission, Corinthian reported that it obtains 89 percent of its $1.3 billion annual revenue from federal aid programs.

And the more federal student aid the students bring in, the more money Corinthian can spend on marketing.

During the 12 months ending June 30, Corinthian spent nearly $300 million — about $1 for every $2.50 used for educational expenses — on Internet, television, and newspaper advertisements; presentations at high schools; and telemarketing operations.

By comparison, "the entire admissions budget for traditional collegiate institutions is so minuscule that it wouldn't even merit a footnote on the institutions' financial statements," said Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars and Admissions Officers. "The periodical budget at the library would be higher."

Corinthian says it employs 1,700 "admissions reps," its term for its sales force. They are assigned to "capitalize on the strong lead flow that's coming through from the media," CEO Peter Waller said during an Aug. 25 conference call with stock analysts, a Thompson/Reuters transcript of which was obtained by *SF Weekly*.

This government-subsidized-marketing merry-go-round is a blueprint for extraordinary growth. During the past year, thanks in part to these efforts, and in part to people lured back to school by the bad economy, enrollment during the past 12 months increased 24 percent to 86,088 students, while operating income increased 166 percent.

I got a sense of this boiler-room sales mentality when I recently visited Everest's "campus" at a small office building across Mission Street from the Yerba Buena Parking Garage. "Are you going there to pick up a brochure?" a security guard asked.

I said I was. But mostly I just wanted to see this remarkable school, the San Francisco champion of the Obama stimulus sweepstakes.

I took an elevator to the fifth floor, walked down a narrow hallway that opened up to a small reception area, and asked a cheery young woman for a brochure.

"We don't have them up here," she said, although her desk was about eight feet from a rack of brochures. "Let me get an admissions representative to help you."

After a while, a tall, thin, dressed-to-kill woman appeared and took me to her spot in a warren of cubicles that seemed to take up a significant portion of the school's floor space.

I heard an unseen, friendly-sounding man say through a cubicle wall, "Does your husband support your desire to go to school?" Another voice said, "If you're going to learn to swim, you've got to get into the water."

Smiling, my admissions representative asked me what I thought I'd like to do. I asked what the classes cost. She said that depended on my income. I insisted on asking how much they cost, independent of federal financial aid. The woman finally pulled down a binder from a shelf and silently opened it to a page that said the programs, which lasted from eight to 10 months, cost more than $17,000.

She insisted that I really did need to see a financial aid counselor and directed me to a different friendly and attractive young woman, who also smiled and asked me what I wanted to do with myself.

For-profit trade schools weren't always polished billion-dollar sales operations. And they didn't always benefit from unfettered taxpayer largesse. Career colleges date back to mid-19th-century urban stenography schools. The industry evolved to spawn correspondence art schools and later to private trucking, beautician, and mixology schools. Today, you can take out federal grants and loans to obtain a $33,000 online bachelor's degree in "homeland security" from the inaccurately named American Public University System — actually a private company that consists largely of a Web site

The industry has never been without hucksters, and for much of its history, these schools have been met with skepticism and scrutiny by regulators.

Recent years, however, have seen a steady erosion of rules designed to prevent for-profit schools from defrauding students and taxpayers. The industry's ability to subsist on federal funds — $16 billion in aid went to these schools in the 2007-2008 academic year, according to the *Chronicle of Higher Education* — is the result of a vigorous decades-long lobbying effort to rewrite student and taxpayer protections.

The industry received substantial help dismantling consumer-protection rules during the Bush administration, when for-profit schools gained favor as entrepreneurial-minded alternatives to traditional public schools.

In 2002, Sally Stroup, the top lobbyist for the University of Phoenix, was made the Department of Education's assistant secretary for post-secondary education. During her tenure, which ended in 2006, the Department of Education softened rules that prevented these schools from obtaining more than 90 percent of their income from federal aid. Under Stroup, the feds also reduced the level of scrutiny they were required to receive from accreditation agencies.

With the Democratic takeover of Congress in 2006, for-profit school executives shifted their lobbying tack. Rather than being entrepreneurial heroes, they became champions of poor students. That year, Apollo Group, which owns the University of Phoenix, appointed former state Senate President John Burton, who is now chairman of the California Democratic Party, to its board of directors.

In 2008, Corinthian spent $1.3 million on lobbying, according to the *Chronicle of Higher Education*, while its political action committee donated more than $60,000 to candidates.

Today, for-profit schools no longer fear a new Democratic cop on the beat.

"In general, we continue to view the political and regulatory environment as favorable for our company," said Corinthian executive chairman Jack Massimino during the Aug. 25 conference call. "There's every indication that we're at the table as full participants in the legislative and regulatory process, and that we have ample opportunity to make our views known."

He added, "There is nothing to suggest that the department's regulatory agenda is designed to put any particular type of school or sector at a disadvantage."

That's an extraordinary thing for a Corinthian executive to say, given that the stimulus package was supposed to be subject to rigorous accountability and oversight.

It's not as though government isn't aware of for-profit schools' problems. In August, the Government Accountability Office issued a report saying the Department of Education's regulation was so lax as to "place students and federal funds at risk of potential fraud and abuse."

"We need people who know how to fix things," Nassirian said. "And that was the initial policy justification for subsidizing these kinds of schools — to provide training in the trades. But, like everything else, that got pushed aside by multibillion-dollar corporations.

"During the 2000s, a Republican Congress paired up with the Bush White House, created an environment in which whatever meek enforcement had been taking place was terminated, and the system went into autopilot. Enrollment shot up," Nassirian said, jokingly adding, "Dog grooming schools began offering Ph.D. programs."

Regulation of for-profit schools wasn't always lax. In 1952, as Congress extended the GI Bill following the Korean War, legislators were concerned that veterans seeking education might be suckered by unscrupulous operators offering courses of little value merely to capture government benefits. For-profit trade schools already had a reputation as a huckster's paradise.

So the 85/15 rule was established, limiting federal aid only to schools where 15 percent of students paid their own way. Supporters said the rule would combat abuse and weed out those schools whose offerings were so uncompetitive that they could survive only with federal subsidies.

"It was predicated on the notion that programs that couldn't find other paying customers were inherently suspect," Nassirian said, that "if something has market viability, surely somebody will pay for it. The industry figured out that it couldn't, with a straight face, say they were 100 percent dependent on federal dollars. So they semantically redefined federal dollars as private."

Over time, the 85/15 rule was changed to the 90/10 rule, which came to mean merely that only 90 percent of total dollars could come from federal aid. Further, the industry lobbied to have some types of government aid reclassified as "private" money, thus allowing schools to operate almost entirely on government aid.

In mid-September, in the latest such insult to precise use of English, a bill sponsored by Rep. George Miller (D-Martinez) further weakened the requirement that private money actually come from students' own pockets, making the rule all but meaningless.

"We are also concerned about the bill's evisceration of the 90/10 rule," George Boggs, president of the American Association of Community Colleges, wrote recently to Miller. "This is another in a continuing weakening of provisions designed to limit fraud and abuse in the student aid programs."

In the case of Corinthian, however, even reported income consisting of 89 percent federal aid has not been enough to retain students. The company itself has taken on debt, with $120 million in such private in-house student loans now outstanding.

In 1989, the government again sought to rein in what news stories and government studies suggested was an industry rife with fraud. A study found that 950 schools had default rates (measured as portion of enrolled students who fail to repay their government-backed loans) of more than 40 percent — a rate that would disqualify them for future federal aid under current rules. Schools had marketed programs to academically underqualified students, urged them to obtain the maximum possible loans and grants, gave them an inadequate education, and sent them on their way with little means to pay back thousands of dollars in debt. The Department of Education instituted a rule that schools would stop receiving federal grants if their default rate exceeded 25 percent for three years, or 40 percent for a single year.

But in 1998, Congress changed the way the default rate was calculated. That year, lawmakers redefined "default" as a student who had failed to make payments for 270 days, as opposed to the previous 180 days. Additional time required for the government to address troubled loans meant that a student who never made a payment wouldn't be officially in default until 420 days after the first installment was due. Further muddying the waters, defaults were counted only during the first two years of the life of the loan, meaning a student who obtained a deferral, a forbearance, or who merely stopped making payments after two years didn't count as a default.

With this in mind, Corinthian reports in its financial statements that it makes use of an "outside professional default management firm," which closely follows all ex-students to detect "changes in circumstance that may allow the student to apply for deferments" until the brief government-recognized default period is over.

"This is not an act they [Corinthian] can sustain over the years," Nassirian said. "But if they can sustain it for six months, until that person is out of the two-year window, and then drop the person, they're in the clear."

According to a report released in August by the inspector general for the U.S. Department of Education, the official default rate ends up capturing only a small portion of all student loan defaults, and this underreporting tends to benefit for-profit schools the most. The report estimates that in reality, as many as 40 percent of graduates from for-profit schools default on student loans, compared with 12 percent for college students overall.

But thanks to nonsensical official definitions obtained by industry lobbyists, the schools' official reported default rate likely underestimates the real figures.

However, there may be a way to obtain a glimpse at the rate that Corinthian students truly default on their student loans — despite official figures that say that, among its San Francisco students, only 16 percent default.

Remember that $120 million Corinthian's students owe directly to the company? Corinthian projects that in the coming years, it expects students to default on 56 to 58 percent of that debt.

Spokesman Robert Jaffe said the fact that most of the student debt owed to Corinthian will likely go into default should not be taken as evidence that students will default on federally backed student loans at a similar rate.

Jaffe wrote that federal student loans can be put off with deferrals, forbearances, and income-based adjustment, and therefore shouldn't be compared to loans owed directly to Corinthian. But merely because some students owing federally backed loans postpone the inevitable doesn't mean their defaults shouldn't ultimately be recorded as such.

Consumer advocates refer to this as sleight of hand; there's no legitimate bookkeeping reason not to tally the total value of student loans in default. Rather, they say, private colleges disguise total student loan defaults merely to avoid rules designed to protect taxpayers and consumers.

This suggests to me that the inspector general is correct. It also leads me to conclude that Corinthian condemns a greater portion of students to a lifetime of wage garnishment than its official numbers let on.

The for-profit school industry's influence has also been felt in California over the years. During the 1980s, California was known as the heartland of "diploma mills" that churned out students with certificates of questionable worth.

Abuses were so bad that in 1989, the California Legislature unanimously approved a bill that required these schools to graduate 60 percent of enrolled students, and place 70 percent in jobs they'd been trained for. The statute allowed students to sue to enforce the law, and set up an independent regulatory agency, the Council for Private Postsecondary and Vocational Education.

The period that followed turned out to be a brief period of genuine regulation. For more than a decade, however, industry lobbyists have helped chip away at state regulation to the point of nonexistence.

In 1997, Governor Pete Wilson vetoed a bill that would have extended the life of the independent agency, and its duties were transferred to the state's Department of Consumer Affairs, overseen by the governor. According to a PricewaterhouseCoopers report, Wilson's pro-business gambit "disrupted virtually all of the functions of the council."

In 2004, the *Sacramento Bee* published an exposé saying Wilson created a "passive consumer protection agency that does little to monitor schools."

In 2006, when the law regulating for-profit schools came up for renewal, the Legislature approved a bill that would have extended the law a year and set up a group to study ways to improve regulation. Governor Arnold Schwarzenegger, egged on by the for-profit school industry, vetoed it. As a result, California is now one of only two states without an agency to certify or regulate these types of schools, as required by federal funding rules. "Today, California is left without any kind of protection for consumers who attend those schools," said state Senator Carol Liu (D-Glendale), who sponsored the bill vetoed by Schwarzenegger.

For the industry, it has been happy days in California. A lack of oversight means schools can exaggerate the percentage of students they place in jobs without fear of a state inspection.

California's situation has become so notorious that Robert Shireman, federal deputy undersecretary of education, has made the issue of "state authorization" of these schools the subject of discussions about new possible rules to be applied to federal financial aid.

Martine Leveque says she paid $30,000 for a “crappy education” at a Corinthian school in Southern California.

Schwarzenegger has voiced his support for a bill that would create a post-secondary-school division in the Department of Consumer Affairs. But consumer advocates are calling it a sop to the private school industry.

"It's kind of a license to operate without any oversight," said Betsy Imholz, senior projects director for Consumers Union. "Something dangerous is happening here."

Liu is sponsoring another bill designed to more stringently monitor these schools. Even though vocational students are receiving government grants, she says, "the state of California can't assure any of them they are receiving the kind of education they need."

I asked Laura Chick, California inspector general overseeing recovery spending, whether she would scrutinize the amazing windfall that for-profit schools have obtained through the stimulus. "The FBI states that we could lose seven to 10 percent to fraud in the stimulus spending," she said in a prepared response delivered by a spokesman. "That is just not acceptable. I am putting all recipients of stimulus spending on notice that not only am I going to be watching closely, but so will the US attorney, district attorney, FBI, and federal inspectors general. We are working as an integrated oversight team to first, deter any fraud; and if it occurs, to find it quickly and bring them to justice. I assure you any agency that is high risk for fraud will be at the top of our watch list."

For the time being, Corinthian grads Leveque and Francis are consulting with Southern California consumer rights attorney Elena Ackel about taking the company to court. Ackel says this is a lonely cause: "I can count on one hand the people who give a shit about the students in those schools."

Corinthian spokesman Jaffe said Leveque's nursing program placed 71 percent of its students in relevant jobs. But consumer advocates say lax state regulations allow even her low-paying part-time job to be considered a "placement" for purposes of convincing prospective students their tuition payments will ultimately result in jobs.

As for the company at large, executive chairman Massimino said the stimulus millions, combined with Democratic support for relaxed consumer protection rules, will help boost company revenue. And rather than serve a vehicle for greater government accountability, as President Obama promised, Massimino suggested the federal stimulus could actually help dismantle the 90/10 rule, originally designed to protect taxpayers.

"Nearly 70 percent of our students, U.S. students, received Pell Grants in fiscal 2009," he said during the Aug. 25 call with analysts. "Congress has also recognized that increases in federal student aid make it more difficult for institutions serving low-income students to meet the 90/10 rule. Just a few weeks ago, the House Education and Labor Committee passed a measure to provide 90/10 relief and the strong bipartisan vote itself, 42-5, was a positive indication about the for-profit sector's standing with Congress."

That's little solace for Francis. "I'm paying back a loan," she said, "and I don't have anything to show for it."