NCLC Student Loan Borrower Assistance
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HOW STATES CAN HELP STUDENTS HARMED BY HIGHER EDUCATION FRAUD

EXECUTIVE SUMMARY

Over the last 10 years, several large for-profit school chains deceived hundreds of thousands of students into taking on enormous debts for worthless educations. These chains included Corinthian Colleges, ITT Tech, The Art Institutes, Education Corporation of America, and several others. After years of fraud, each of these chains suddenly closed, leaving financial ruin and trauma in their wake. This picture is likely to worsen with the massive unemployment and disruption to the higher education landscape caused by the COVID-19 crisis. The for-profit school industry, in particular, is already taking advantage of the COVID crisis and aggressively recruiting new students into distance education programs.

Higher education fraud, when unaddressed, devastates families and their communities. It disproportionately impacts low-income, people of color, and women, who start out economically disadvantaged, pursue the American dream by enrolling in college, and then are left in an even worse economic position. Harmed students not only lose the years they spend attending classes for an illusory promise of a high-paying career. They also lose the savings, grants, and student loan proceeds they use to fund tuition, books, child care, and other expenses that allow them to attend college. Many also give up jobs or other career opportunities to go to school. If these students cannot obtain debt relief, they pay for their schools' fraud through a lifetime of debt collection, negative credit histories that make it difficult to find housing and employment, and reduced opportunities for economic advancement.

It is time for state governments to take leadership and help these students, rather than waiting for a solution from the federal government. The federal discharge programs, even when they work, do not provide private loan relief and often do not reimburse students for lost grants, such as GI Bill funds and Pell Grants (except in the case of school closures).

States can provide relief to students through student protection funds (SPFs). These funds are often referred to as "student tuition recovery funds" because they typically reimburse tuition to students whose schools suddenly close. These funds are administered by states and are often funded by a fee calculated as a small percentage of tuition charged per student or total tuition revenues. Through SPFs.

states amend or create laws to relieve harmed students for all their financial losses, not just tuition, caused by a broad range of illegal practices.

Currently, only 20 states have SPFs. Most of these SPFs fail to provide adequate relief to harmed students. This report describes specific ways states can amend their laws to strengthen or create SPFs. The ideal SPF would do all of the following:

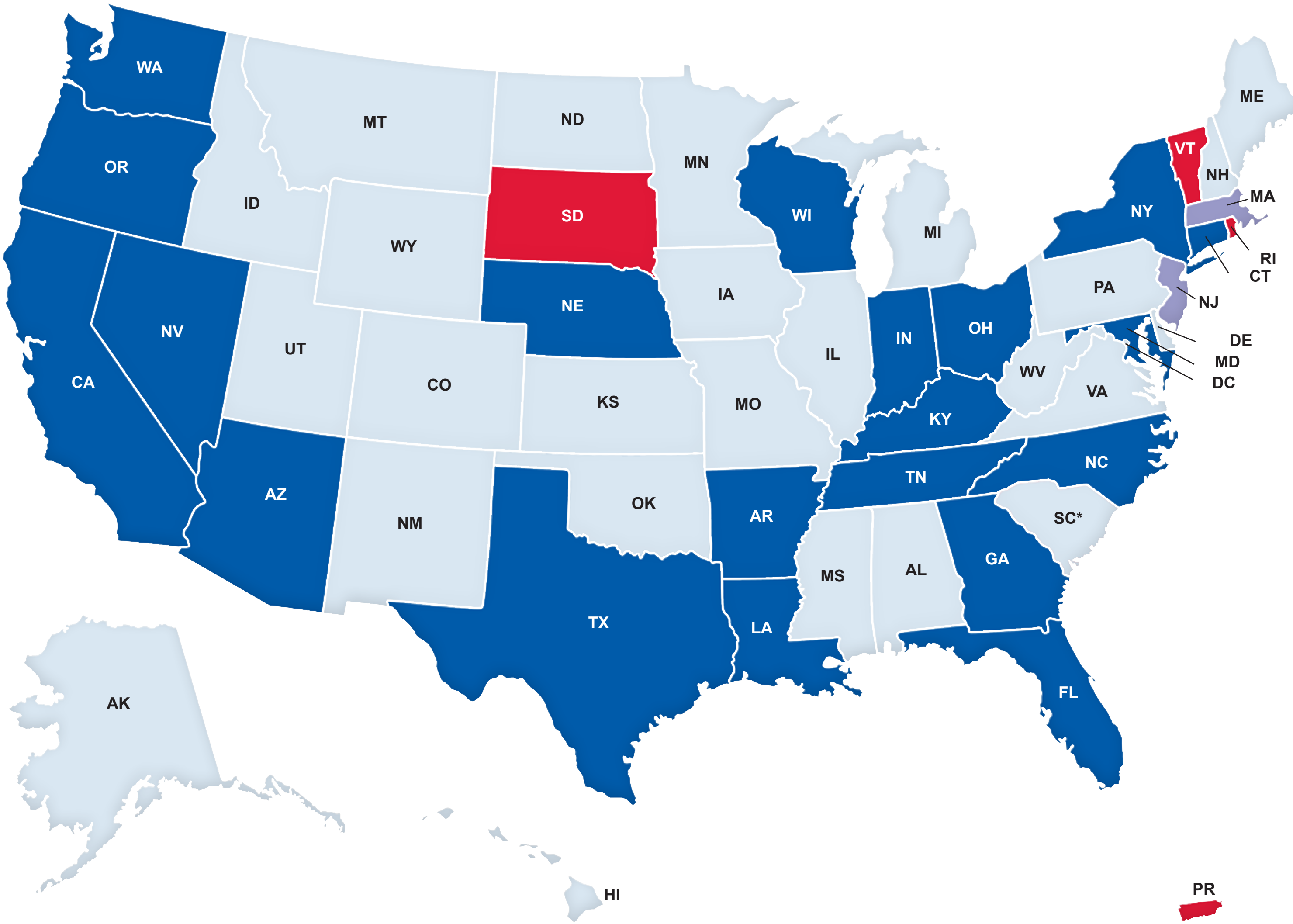
- Maintain sufficient funds to pay all student claims and administrative costs;
- Require each school to fund a surety bond sufficient to reimburse the SPF for losses caused by that school;
- Be maintained as one single fund that covers all for-profit schools, including degree-granting schools and out-of-state schools offering distance education programs, as well as sham private nonprofit schools that financially benefit their board members or owners;
- Provide relief to borrowers who suffer from illegal school conduct, not just from sudden school closures;
- Provide relief to parents and other people who financially contribute to a student's education;
- Establish a SPF claims limitations period, if any, that does not expire as long as any student debt holder can seek repayment from the student;
- Fully reimburse claimants for their total economic loss, including for all loans, grants, and cash obtained by them or on their behalf to allow them to enroll in a higher education program;
- Provide relief based on group claims submitted by law enforcement agencies; and
- Timely resolve SPF applications.

In addition, state agencies should:

- Facilitate widespread student access to SPF relief through an easily accessible claims process; and
- Provide periodic public data regarding SPFs to state legislatures and governors.

How States Stack Up: Which Jurisdictions Have Student Protection Funds?

States with SPFs provide the greatest consumer protection to students.



- States with Student Protection Funds (some of these states also have bond funds)
- States with Bonds Only with Recent Legislation to Create SPFs (MA HB3807 and SB164 (2019); NJ A5141 (2019))
- States with Bonds Only
- State with Neither SPFs nor Bonds

*While South Carolina law authorizes its oversight agency to establish a SPF, it has not done so. S.C. Code Ann. § 59-58-80(D).