

Federal Student Aid Enforcement Office
Report on Borrower Defense
October 28, 2016

This is the first periodic report of the Federal Student Aid (“FSA”) Enforcement Office regarding the work of its Borrower Defense Unit (“BD Unit”). The Enforcement Office assumed management of borrower defense in June 2016, taking over responsibilities that had previously been assigned to the Special Master. Since then, due to the Department of Education’s ongoing outreach efforts to former students of Corinthian Colleges, Inc. (“Corinthian” or “CCI”), there has been a considerable increase in borrower defense claims. Accordingly, the BD Unit’s focus has been to accelerate adjudication of the rapidly increasing number of claims based on the Department’s findings concerning Corinthian’s misleading job placement rates (“findings claims”), as well as to initiate adjudication of claims filed by Corinthian students based on other allegations of misconduct (“non-findings claims”). To that end, as detailed below, since the issuance of the Special Master’s fourth and final report of June 29, 2016, the Department has approved an additional 11,822 findings claims for a total of more than 15,000 findings claim approvals, constituting a total of \$247,370,853 of relief. At the current pace, the Department expects to resolve all pending eligible findings claims by spring 2017. The Department also has identified its first approvals of non-findings claims for students harmed by CCI misrepresentations that their credits were generally transferable to other institutions.

This report will focus on: (1) the ongoing development of the Borrower Defense Unit to meet the demands of submitted claims; (2) the growth of claims submitted and the Department’s progress toward resolving those claims; and (3) the Department’s borrower defense outreach efforts. The report also will provide an update on closed school discharges for former CCI students.¹

I. FSA Enforcement’s Borrower Defense Unit

As stated in the June 29 report, the Borrower Defense Unit is now under the supervision of FSA’s new Enforcement Office. Chief Enforcement Officer Robert Kaye and Deputy Chief Enforcement Officer Laura Kim lead the Office, which encompasses four divisions: Borrower Defense, Investigations, Administrative Actions and Appeals, and the Clery Group. The work of the Borrower Defense Unit will be enhanced by its close interactions with its sister units, which all work to quickly and efficiently identify misconduct at institutions receiving Title IV aid and take appropriate action to protect students and taxpayers.

On October 17, Colleen Nevin joined the Enforcement Office as the new Director of the Borrower Defense Unit, where she oversees a team dedicated to investigating and adjudicating borrower defense claims. Nevin joins the Department after working most recently as an Assistant Attorney General at the Massachusetts Attorney General’s Office, where she investigated and civilly prosecuted consumer protection violations.

¹ While the Enforcement Office does not process closed school discharge applications, we include this information because we recognize that many stakeholders are interested in updated information about the issuance of closed school relief to eligible Corinthian students.

In addition, to meet the rapid increase in claims, the BD Unit also recently added contract attorneys and analysts, on a temporary basis, to assist with ongoing claim review. These additional resources have contributed to the Unit’s substantial progress resolving claims.

II. Borrower Defense Claims

a. Claims Received

As a result of the ongoing outreach efforts to borrowers detailed below, the Department has seen a large increase in the number of claims submitted. Significantly, the recent postal mail campaign to Everest and WyoTech borrowers nearly doubled the total number of claims received. The Department has now received a total of approximately 82,000 claims.² Once a claim is submitted and processed through intake, borrowers’ loans are placed in forbearance or stopped collections until their claim is resolved, unless they opt-out.³

Based on the number of claims that have been processed through intake, approximately 60% of the Corinthian claims have been filed by borrowers who enrolled in CCI schools during the time periods covered by the Department’s findings. Many of these claims are from borrowers who attended programs that the Department found had been publicized with misleading job placement rates. All of these claims that are not granted on the basis of the Department’s findings will also be reviewed to determine whether relief is warranted on other bases. We also have more than 4,000 pending applications from borrowers who attended non-CCI schools.

b. Claims Adjudicated

i. Corinthian Findings Claims

As of the last report on June 29th, the Department had approved a total of 3,787 claims based on the Department’s findings. As of October 12, the Department has approved an additional 11,822 findings claims. Details on the amount of the discharges associated with these claims are in the table below. Assuming the current rate of approval is sustained, the Department expects to resolve all pending eligible findings claims by the spring of 2017.

School	Findings Claims Approved for Discharge through 10/12/16	Total Amount of Loans Approved for Discharge through 10/12/16
Heald	5,490	\$104,085,830
Everest	8,146	\$116,874,687
WyoTech	2,058	\$26,410,336
Total	15,694⁴	\$247,370,853

² This total number may include some duplicate or incomplete claims that will not be identified until all of the claims have been processed through intake.

³ Note that, in limited circumstances, borrowers will not be placed in forbearance because they are still in their grace period, or otherwise in a status where forbearance would not be beneficial.

⁴ This number is higher than the total number of findings applications approved because some borrowers attended multiple schools.

ii. Corinthian Non-Findings Claims

In addition to this significant progress on findings claims, the BD Unit also has made progress on the pending non-findings claims submitted by former Corinthian students. The BD Unit has conducted a thorough investigation into the practices of Corinthian personnel, including reviewing thousands of pages of internal documents, documents obtained from other state and federal agencies, publicly available documents, as well as the personal narratives contained in thousands of borrower defense applications. Based on this work, the BD Unit has identified the most common categories of claims made by CCI borrowers and whether and under what circumstances borrowers should qualify for relief on the basis of the claim. While these efforts are ongoing, the Department is now prepared to issue relief for the first category of such claims.

At the time of this publication, the BD Unit has identified 293 claims for approval on the basis of misrepresentations CCI made about the general transferability of its credits. These applicants will be eligible for relief subject to the applicable state statute of limitations. Although this is a limited number compared to the universe of claims, additional claims alleging this misrepresentation will now be processed for relief.

iii. Denial of Claims Not Eligible for Borrower Defense

Finally, in addition to the approvals noted above, the BD Unit also has resolved 245 claims that do not qualify for relief. These claims are being denied because the claims are not eligible under the Department's findings (*e.g.*, the applicants did not enroll during the findings time periods or did not enroll in eligible programs) and do not allege any other basis for borrower defense relief. The Department will inform these borrowers of the basis for the denial. The Department also will inform borrowers that they may re-apply if they have new information bearing on their claim or if they would like to allege another basis for relief not included in their original application. The Department also is updating its borrower defense hotline to ensure that it can assist these borrowers who may have questions about their loans or the status of their loan forbearance. In addition, for any of these borrowers who may also be eligible for closed school discharge, the Department will inform them of their potential eligibility.

III. Outreach to Potentially Eligible Corinthian Borrowers

The Department has pursued various methods to inform borrowers that they may be eligible for borrower defense relief and other forms of loan discharges. In addition to accelerating its adjudication of claims, the Department has expanded its direct outreach to potentially eligible Corinthian borrowers who have not yet submitted applications. As detailed below, this ongoing work includes expanded postal mail outreach, a Facebook advertisement pilot, a servicer pilot that relies on emails, postal mail, phone calls, and texts, an outreach partnership with state attorneys general, and publication of a new "universal form" for public comment. The Department expects that the finalization of the universal form will facilitate future outreach and educational efforts to borrowers who may be eligible for borrower defense relief. Finally, the Department also has made considerable efforts to inform students of recently closed schools about their options, whether through transfer or closed school discharge.

a. Postal Mail Campaign

Since the last borrower defense report, the Department completed its postal mail campaign to over 280,000 Everest and WyoTech borrowers who enrolled between 2010 and 2014, the period covered by the Department's findings. The Department estimates that this postal campaign yielded over 30,000 additional borrower defense applications.

b. Facebook Pilot

The Department also has experimented with new types of outreach. The Department recently conducted a pilot that deployed 219,000 Facebook ads to users who had expressed an interest in Heald College, one of the Corinthian schools. For example, the pilot directed ads to users who had indicated they attended Heald College. Evidence from the pilot suggests that this type of outreach may be effective to direct certain borrowers – including those relying on mobile devices – to relevant information on the Department's website. The Department continues to evaluate the appropriate circumstances for this type of outreach to borrowers.

c. Servicer Pilot

Additionally, the Department is launching an outreach pilot with all of its servicers. Through the pilot, each servicer will communicate with a subset of Corinthian borrowers using emails, letters, outbound calls, or texts. The pilot will help the Department determine the efficacy of each of these modes of communication, as well as whether emails and letters from the servicer may be more effective for reaching eligible borrowers than communications directly from the Department. The results of this pilot, which we expect to have this winter, should provide the Department with information to guide its future outreach to students from other institutions.

d. Partnership with State Attorneys General

In addition to these internal efforts, the Department also is working closely with state attorneys general from across the country to conduct outreach to former CCI students from their states. These 42 state partners, as well as the Attorney General of the District of Columbia, will use a variety of methods – including email, postal mail, telephone calls, and events – to reach more Corinthian borrowers. The Borrower Defense Unit would like to especially thank the Illinois and Maryland Attorney General's Office for their leadership and coordination of these efforts, as well as the Massachusetts Attorney General's Office, which has already gathered and submitted a large number of claims from borrowers who attended campuses in Massachusetts. The BD Unit thanks all of these state partners for their commitment to helping the eligible borrowers in their states.

e. Universal Form

The Department is in the final stages of developing a "universal form" that would provide more guidance to all borrowers on how to apply for borrower defense. The Department revised the form based on the many useful comments received through the first round of required Paperwork Reduction Act clearance and, as of October 17, 2016, is in its second round of comments (see <https://www.gpo.gov/fdsys/pkg/FR-2016-09-28/pdf/2016-23400.pdf>). The Department expects to publish the final form along with additional guidance about the application process on its website later this year.

As noted in the last Special Master report, the universal form also will include detailed information specific to FFEL borrowers. In the meantime, eligible students should visit StudentAid.gov/borrower-defense to learn what to include in a borrower defense submission and how to submit an application. Application materials may be submitted via email to FSAOperations@ed.gov or by mail to: U.S. Department of Education, PO Box 429060, San Francisco, CA 94142.

IV. CCI Closed School Claims

Although it has now been more than a year since the April 27, 2015 closure of Corinthian schools, the Department continues to process claims from former Corinthian students that opt to pursue a closed school discharge. The Department last reported that, as of June 24, CCI borrowers had filed 12,254 applications for closed school relief, of which 7,386 were eligible, resulting in \$97,613,625 of relief to borrowers. As of October 12, there are now a total of 13,010 closed school discharge applications that have been received, resulting in 7,858 approvals, for a total of \$103,050,594 of relief granted. Approximately 189 closed school discharge applications are pending. To date, 4,963 applicants for closed school discharge (38%) have been denied relief, most commonly because: (1) the application was incomplete; (2) the borrower withdrew from their program prior to the June 20, 2014 deadline; or (3) the borrower completed their program of study (either at the closed school or another school to which they were able to transfer their credits). The chart below shows the number of claims granted by school.

School	Applications Received as of October 8	Applications Granted as of October 12	Total Loans Approved for Discharge
Heald	7,623	5,062	\$73,321,497
Everest	3,929	2,282	\$25,544,812
WyoTech	1,458	514	\$4,184,285
Total	13,010	7,858	\$103,050,594

The Department is also taking steps to ensure that all Corinthian borrowers who are eligible for a closed school discharge receive that discharge. Through the Borrower Defense final rule, the Secretary is exercising his authority to implement new and amended regulations specific to automatic closed school discharges on a faster timeline than other elements of the new regulation. As a result, all Corinthian borrowers who may be eligible for closed school discharge stand to benefit from a streamlined discharge process over the next year.

V. Conclusion

Adjudicating borrower defense claims is an important part of the Department's ongoing efforts to protect students and ensure greater accountability among institutions receiving federal student aid. While the Department has laid a strong foundation for this process, much work remains ahead — not only for former Corinthian students but also for students subject to misconduct by other institutions. This work includes implementation of the Department's final Borrower Defense rule, which goes into effect on July 1, 2017, and creates a new federal standard for borrowers whose loans disbursed on or after that date. The Enforcement Office looks forward to working with its stakeholders to ensure that the BD program fulfills its mission and the important goals of the new regulation. To that end, the Enforcement Office will continue to publish periodic reports on the Borrower Defense program and its work on behalf of students and taxpayers.