

# Report: Survey of State Student Protection Funds that Help Students Harmed by Higher Education Fraud

**FOR IMMEDIATE RELEASE:** January 14, 2021

**National Consumer Law Center contact:** Jan Kruse (jkruse@nclc.org)

**Download the full report, a map, charts on state student protection funds (SPFs), and a SPF evaluation checklist for advocates and legislators at:** <http://bit.ly/state-tuition-fraud-info>

Boston – When a college education is cut short by a school closure or a school engages in fraud, the students and their families suffer long-term financial distress. Many end up owing thousands in student loan debt they cannot repay, having earned worthless and non-transferable college credits. The vast majority of harmed students are blocked from even receiving federal debt relief due to complex procedural hurdles imposed by the U.S. Department of Education. A new report, *How States Can Help Students Harmed by Higher Education Fraud* by National Consumer Law Center attorneys Robyn Smith and Joanna K. Darcus, lays out a roadmap for how states, through the creation or strengthening of Student Protection Funds (SPFs), can provide desperately needed financial relief to help students recover from the severe economic setbacks caused by higher education fraud or sudden school closure.

Over the last 10 years, several large for-profit school chains, including Corinthian Colleges, ITT Tech, The Art Institutes, and Education Corporation of America, deceived hundreds of thousands of students into taking on enormous debts for worthless educations, and then suddenly closed, leaving financial ruin and trauma in their wake. “The federal government has failed to provide full federal loan cancellation for the vast majority of these borrowers, while most of them also struggle with enormous private debt burdens with no relief in sight,” **said co-author Robyn Smith**. “To prevent dire economic harm to students recruited by fraudulent schools or harmed by sudden school closures in the wake of the COVID crisis, state legislatures can make a huge difference by implementing strong Student Protection Funds at no cost to taxpayers.”

The for-profit school industry, in particular, is already taking advantage of the COVID crisis and aggressively recruiting new students into distance education programs. Students who enroll in out-of-state distance education programs are particularly likely to be left in the lurch. Every state except California has entered into an agreement (called the Uniform State Authorization Reciprocity Agreement or SARA) that prohibits member states from collecting fees for their SPFs from out-of-state distance education schools. The result is that students in SARA member states who enroll in these out-of-state schools are not eligible for relief in their home states and they are often not eligible for relief in the state where the school is located.

Higher education fraud, when unaddressed, devastates families and their communities, disproportionately impacting low-income, people of color, and women, who start out economically disadvantaged. 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 college-related expenses. 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.

## Key Recommendations

Currently, only 20 states have SPFs and most fail to provide adequate relief to harmed students. The 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.

*Get more information about NCLC's policy work on student loans. Sign up for NCLC's Student Loans blog and visit NCLC's Student Loan Borrower Assistance Project to get information on student loan rights and responsibilities for borrowers and advocates.*

## Related Materials:

NCLC Report: Ensuring Educational Integrity: 10 Steps to Improve State Oversight of For-Profit Schools, June 2014, Update to Step 2: Protecting Online Education Students, Dec. 2015