



The Honorable Maggie McIntosh, Chair
House Appropriations Committee
Maryland General Assembly—House
Legislative Services Building
90 State Circle
Annapolis, MD 221401

Re: Disorderly School Closures Legislation, HB469 [Favorable]

February 18, 2020

Dear Committee Members,

Thank you for the opportunity to provide testimony in strong support of House Bill 469 addressing disorderly school closures among institutions of postsecondary education. This testimony is submitted on behalf of the postsecondary education policy team at the Center for American Progress, a nonpartisan think tank committed to improving the lives of all Americans. The changes in the proposed legislation would help ensure that students in the state of Maryland have access to a high-quality education safe from the devastating harm of school closures that has impacted students in your state and across the country.

Over the last five years, according to federal data, half a million students have been impacted by college closures.¹ Students impacted by disorderly closures are particularly vulnerable. Nearly 70 percent of undergraduates impacted by college closures are federal Pell grant recipients. The Pell grant is the largest source of grant funding that helps low-income students pay for college, and the primary means of expanding college access and opportunity. Approximately 57 percent of students hit by college closures are students of color. The overwhelming majority occur at for-profit colleges.² Precipitous closures undermine the goals of access and opportunity and leave the most vulnerable students potentially worse off with credits that won't transfer and burdensome debt.

The impact on students can be devastating. Students faced with precipitous closure are left with uncertain financial futures, often after spending large sums of money, using up their financial aid, taking on debt, and spending time they cannot recoup. They must navigate a complex process to get their loans discharged or tuition and fees refunded. They may have to sort out credit transfer options in time for the start of the next academic term at another school or may be forced to put their education on hold. By contrast, an

¹ <https://www.chronicle.com/interactives/20190404-ForProfit>

² Ibid.

orderly closure gives students weeks or months to sort out their options and means that the college stops recruiting and enrolling new students, so no student finds the doors shuttered just days after they enroll.³

Fortunately, there are steps that states like Maryland can take to safeguard students and the legislation under consideration today would help protect both students and taxpayers in a number of ways.

1. Establishes incentives to avoid precipitous closure

The legislation takes several steps to incentivize orderly closure including establishing personal liability for executives and forgiving debt that executives can currently collect on after they've left students and taxpayers on the hook.

Precipitous closures have two things in common: They involve schools that were at one point private, for-profit colleges, and the executives running the schools have paid no price for suddenly deserting students. In fact, these closures often come after institutions, and the people that own and run them, have profited from millions of dollars—in some cases, billions of dollars—in federal financial aid and state aid. Corinthian Colleges received about \$1.4 billion in federal aid annually in its final years of operation, while the Education Corporation of America (ECA) took in a quarter-billion dollars in the 2017-18 school year alone.⁴ Even the much smaller Vatterott received nearly \$59 million in its final year of operation, according to U.S. Department of Education data.⁵ Kevin Mondany, the former head of ITT Technical Institute, made as much as \$3 million per year, as did Jack Massimino at Corinthian.⁶

Holding college executives financially liable is a necessary first step toward addressing the incentives that lead to disorderly closure and one that CAP has called for.⁷ It would encourage caution in daily operations and more methodological efforts at closure.

³ <https://www.americanprogress.org/issues/education-postsecondary/news/2019/03/19/467366/college-executives-need-pay-schools-close-abruptly/>

⁴ https://www.washingtonpost.com/local/education/corinthian-colleges-details-plan-to-sell-85-campuses-close-12-others/2014/07/07/46504eb2-0609-11e4-8a6a-19355c7e870a_story.html?utm_term=.413495a85be3;
<https://www.warren.senate.gov/imo/media/doc/Letter%20to%20ACICS.pdf>

⁵ <https://studentaid.ed.gov/sa/about/data-center/student/title-iv>;

⁶ <https://www.indystar.com/story/money/2018/07/09/top-itt-executives-kevin-modany-daniel-fitzpatrick-settle-sec-charges/769582002/>;
https://www.help.senate.gov/imo/media/for_profit_report/PartII/Corinthian.pdf

⁷ <https://www.americanprogress.org/issues/education-postsecondary/news/2019/03/19/467366/college-executives-need-pay-schools-close-abruptly/>

Currently, the safest, most lucrative course of action for schools is to grow big fast; doing so generates profit and helps fuel further expansion with minimal risk. Even if things go south, the leadership can shut down the school and make off with any gains. If financial consequences for such behavior were put in place for leaders, they would be less willing to keep recruiting and enrolling new students when the school is no longer financially viable. Ideally, they would take steps to avoid reaching that point in the first place. Other incentives that would prevent executives from recouping on debt after closure would also help disincentivize disorderly closure.

2. Establishes teach out agreements so that students have the opportunity to transfer their credits and continue their education

The legislation establishes requirements that schools engaged in an orderly closure secure formal teach-out agreements so that students have the opportunity to continue their programs at another institution and their credits do not go to waste. This requirement is necessary.

Current federal requirements rely on accrediting agencies to establish teach-out plans when a school is at risk of closure and leave it up to the discretion of the accretitor whether to require teach-out agreements.⁸ While the Department of Education conducted a rulemaking last year and updated its regulations on teach-outs, scheduled to go into effect in July 2020, the new regulations still leave it up to the discretion of the accretitor of whether or not to require a teach-out agreement.

Teach-out plans are inadequate and meaningless to students because they only contain a list of schools a student could transfer to in the event of a school closure but no guarantees. In contrast, teach-out agreements are a formal agreement which resembles a contract between two or more institutions. Agreements provide students certain guarantees that for example, their credits will transfer, they will not be charged additional excessive fees, and the transfer institution is within a reasonable distance. However, because securing agreements is not a requirement under federal rules, accreditors rarely require one or only after it is too late.⁹ As a result, students often have to navigate complex decisions about where to transfer, how many of their credits will count, how much more money they'd have to pay and whether they can afford it, and many will not transfer at all.

⁸ <https://www.regulations.gov/document?D=ED-2018-OPE-0027-26560>

⁹ <https://www.regulations.gov/document?D=ED-2018-OPE-0076-0834>

3. Establishes standards for teach-out agreements so that students have high-quality options and are not harmed twice

The legislation establishes quality safeguards for teach-out agreements so that students have high quality options and are not harmed twice by transferring to an institution that is itself facing trouble, financial or otherwise. Because teach-out agreements rarely happen, disorderly closures result in a feeding frenzy where institutions eager to add enrollment target students left in the closing school's wake. These options can be risky and actions can be predatory. Take for example, the recent closure of schools owned by Education Corporation of America (ECA). When the schools closed students had nowhere to turn other than ECA itself which within days began listing unvetted transfer options on its website.¹⁰ Many of the institutions listed and the guarantees offered should raise red flags. At the top of ECA's list is the New England Business College, the only remaining campus of ECA that remains open. Many of the other options are online for-profit colleges, some of which themselves are on heightened cash monitoring for financial issues with Department of Education, and many of which offer students attractive discounts on tuition especially for ECA students. For example, Ultimate Medical Academy promises students can enroll and complete their studies at **no cost**. Or MyComputerCareer, offering a special enrollment grant available up to \$7,308 for ECA students. The details and fine print of these promises and the potential tradeoffs are uncertain. When teach-out agreements do occur, the terms and guarantees vary considerably by accrediting agency.¹¹

The legislation would establish requirements for eligible transfer institutions that exempts schools that are not in good standing with their accreditor, have default rates higher than the closing institution, that are not under financial aid restrictions by the U.S. Department of Education, and that has not entered into a settlement agreement related to a consumer protection law within the previous 5 years. These requirements help prevent troubled institutions from taking advantage of school closures at students' expense and helps guarantee that students do not go from one risky institution to another.

4. Creates a process for securing accurate student records

Finally, the legislation creates a process for securing accurate student records, a critical role for states in the event of precipitous closures. Students facing sudden closure often have difficulty gaining access to records such as credits or degrees earned and financial

¹⁰ <http://www.ecacolleges.com/transfers/>

¹¹ <https://www.regulations.gov/document?D=ED-2018-OPE-0027-26560>

aid paid.¹² These problems can prevent a student from being able to transfer or verify their degree for a job.

The legislation would ensure that student records are handled by the state, that they are accurate, and that students can correct and update inaccurate records, avoiding additional harm.

We commend the efforts of sponsors of this legislation to prevent the devastating impacts of precipitous closures that have harmed tens of thousands of students across the country in recent years. This legislation is critical, and we urge Maryland legislators to report the bill favorable, adopt this language, and lead the charge for states in addressing school closures.

Sincerely,

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¹² https://www.richmond.com/news/virginia/virginia-education-officials-denied-access-to-itt-technical-institute-records/article_3197c5d2-eb52-5555-8349-0cffdabb5cfc.html