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For Students Swindled by Predatory Colleges, Relief May Only Be Partial

By Erica L. Green

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Thousands of students who say they have been swindled by predatory for-profit universities will soon learn whether their loans will be forgiven by the Education Department, but under a new Trump administration policy, some students who expected full loan forgiveness may only receive partial relief.

The education secretary, Betsy DeVos, announced Wednesday that the department will have responded to more than 20,000 so-called borrower-defense claims filed by students from Corinthian Colleges, a defunct for-profit chain that spurred a federal crackdown on for-profit colleges.

The claims, part of nearly 100,000 that have amassed and stalled under the Trump administration, include 12,900 approvals and 8,600 denials.

The notifications are the first step that Ms. DeVos has taken to address widespread abuses in the for-profit sector that have left students buried in debt with seemingly worthless degrees and little recourse except for seeking debt relief from the federal government.

But the announcement that the department would begin discharging claims this week came with a caveat. The department's "improved process" would allow some students to recoup only partial damages if they are found to be gainfully employed, Ms. DeVos said.

"We have been working to get this right for students since day one," Ms. DeVos said in a statement. "No fraud is acceptable, and students deserve relief if the school they attended acted dishonestly. This improved process will allow claims to be adjudicated quickly and harmed students to be treated fairly. It also protects taxpayers from being forced to shoulder massive costs that may be unjustified."

The move brought immediate backlash from congressional Democrats and consumer advocates who criticized Ms. DeVos for alleviating pressure on for-profits rather than looking out for the students.

Senator Patty Murray, Democrat of Washington and a vocal critic of Ms. DeVos's actions on for-profit regulations, called the model "cruel." Ms. Murray, the top Democrat on the Senate education committee, said she planned to challenge the legality of the new system.

“There is nothing fair about denying students the full relief they are entitled to when they are cheated, so it is appalling Secretary DeVos is creating a scheme to block full relief to tens of thousands of borrowers stuck paying back loans on worthless or nonexistent degrees,” Ms. Murray said in a statement.

It also brought worry and resignation to former students awaiting word on their applications for assistance. Jarrod Thoma, an Army veteran who filed a complaint in 2015 against DeVry University, was not hopeful.

He said he was particularly disheartened when Ms. DeVos hired a former executive from DeVry, which paid out millions to settle claims that it misrepresented its outcomes, to lead the department’s unit responsible for policing fraudulent and deceptive practices at colleges and universities.

“I feel like, because of the things that have been done around appointments and regulations, that I don’t even stand a chance,” Mr. Thoma said. “There’s just no way anyone is going to be held accountable if everyone is buddy-buddy.”

Policy experts said that the decision unfairly penalized students who had managed to succeed despite being swindled. It was unfair, they added, to change the discharge process midstream, especially for Corinthian Colleges students whose applications were handled by two different administrations.

“In other words, two students who attended the same program and were lied to in the same way by their school, and even who may have applied for a borrower-defense claim on the same day, could wind up with vastly different amounts of relief,” wrote Clare McCann, a federal policy expert at the New America Foundation and a former Obama official.

The new system, which Ms. DeVos said replaced an “all or nothing” approach, would determine loan forgiveness on a tiered system.

Students whose current earnings are less than 50 percent of their peers from a comparable program will receive full relief, and students whose earnings are at 50 percent or more of their peers will receive “proportionally tiered relief to compensate for the difference and make them whole.”

The notifications culminate a year of uncertainty for student borrowers as the Trump administration has tried to chart a new course for regulating for-profit colleges.

One of Ms. DeVos’s first orders as secretary was pausing and rewriting Obama-era loan forgiveness regulations. She maintained that she wanted to correct a “muddled process that’s unfair to students and schools, and puts taxpayers on the hook for significant costs.”

But Ms. DeVos has also expressed skepticism about the Obama-era process, saying in a September speech, “Under the previous rules, all one had to do was raise his or her hands to be entitled to so-called free money.”

The loan-forgiveness rules, which were to take effect in July, were seen as an aggressive response to widespread abuses that had been suspected for years, but a wide range of colleges, including historically black private colleges and universities, protested the rules for being too broad and punitive.

A recent examination by the Century Foundation, which obtained information on the nearly 100,000 student borrower claims in November, found that 98 percent came from students who attended for-profit colleges. An Education Department panel began renegotiating the rules last month and will send recommendations to the department leadership in January.

Ms. DeVos’s announcement came more than a week after the Education Department’s inspector general issued a report revealing the department had not approved a single claim since the Trump administration took office. More than 25,000 loan assistance claims had been filed since Mr. Trump assumed the presidency until July.

The Obama administration approved nearly 30,000 such claims, estimated at $450 million, before the day that the Trump administration took office. The claims approved by the Obama administration granted full loan relief.

Ms. DeVos requested the report by the inspector general over concerns that no standardized process was in place for adjudicating claims.

Auditors found that the infrastructure established under the Obama administration was insufficient. The report portrayed an office that struggled to manage the claims with spreadsheets and contractors. It also found a lack of procedures and timelines for processing claims approved for loan discharge, including claim denials.

But it also pointed out that Ms. DeVos halted progress that had been made under the Obama administration with the system that was in place, and the number of staff members to process claims had precipitously declined under Ms. DeVos.

Many of the denial notifications this week are ones that were flagged but not issued by the Obama administration, the department said. The department will forgive interest on the loans of students that have been pending for more than one year

Liz Hill, a spokeswoman for the department, maintained that the inspector general’s report “confirms the previous administration did not establish an adequate adjudication process for borrower defense claims.”

“The desire to avoid denying claims or adjudicating complicated claims left thousands of students in limbo,” Ms. Hill said.

Students across the country with pending claims have been watching the Education Department closely for clues.

The Obama administration began receiving and approving claims almost immediately after the collapse of Corinthian Colleges in 2015. A year later, after the collapse of ITT Technical Institute, the department announced that it would tighten rules on the loan-forgiveness statute that had been on the books since 1995 but had been used only five times. From June 2015 to January 2017, nearly 70,000 borrower claims flooded the department.

It was one year and 60 job applications ago that Kip Malone tried to take his life back from ITT Technical Institute. Mr. Malone, a Navy veteran, graduated from the for-profit institution in 2011 with honors. He said he had hoped that his project management degree would land him jobs, but instead it landed him jokes.

“Employers would literally laugh in my face,” Mr. Malone said.

Last year, after ITT Technical Institute shut down, Mr. Malone filed a claim with the Education Department, saying that the institution swindled him of nearly $50,000 of his grant through the G.I. Bill because he could not find gainful employment.

But Mr. Malone said he and other students were not looking for free money. He was looking to redeem himself.

“I feel that since the school closed, the education I received doesn’t really count,” said Mr. Malone, who returned to school to pursue another degree after ITT Tech closed.

“I know once you graduate, they’ve done their job, you’re supposed to go about your business,” he said. “But the fact that I had to go somewhere else to validate what I achieved was a very disheartening and frustrating experience that I really want to put behind me.”

Correction: *December 21, 2017*
An earlier version of this article misstated the name of a defunct for-profit chain that spurred a federal crackdown on for-profit colleges. It is Corinthian Colleges, not Corinthian College.

A version of this article appears in print on Dec. 22, 2017, on Page A17 of the New York edition with the headline: Loan Relief May Be Only Partial on Claims Against For-Profit Colleges