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Madigan announces settlements with for-profit Education Management Corporation

November 16 2015 10:38 AM

Operator of Argosy University & Illinois Institute of Art to provide multimillion dollar student Loan debt relief over recruiting & Enrollment practices

CHICAGO – Attorney General Lisa Madigan today announced two settlements with for-profit education company **Education Management Corporation (EDMC)** that will significantly reform its recruiting and enrollment practices, forgive more than $3 million in loans for Illinois students, and return money fraudulently obtained from the state of Illinois.

A consumer fraud settlement that was reached with EDMC by Madigan, attorneys general in 39 states and the District of Columbia will provide $102.8 million in outstanding student loan debt relief held by more than 80,000 former students nationwide. The settlement also requires EDMC to provide disclosure to students about the true cost of the school and expectations for job placement after graduation. It bans the school from making misrepresentations to prospective students, prohibits enrollment in programs that lack the programmatic accreditation required for state licensure or required for employment by the bulk of employers, and institutes an orientation period when new students can withdraw with no financial obligation.

The second agreement is a global agreement with Madigan, the federal government, attorneys general in 11 states and the District of Columbia, and whistleblowers. It requires EDMC to pay a total of $95.5 million, including $1.9 million to the state of Illinois to resolve alleged violations of the False Claims Act, as well as claims by the Consumer Protection Consortium. The agreement resolves allegations that EDMC illegally paid incentives to its admissions recruiters for the number of students they enrolled.

“EDMC will be held accountable for deceptive recruitment and enrollment practices that were unfair and misleading to Illinois students,” Madigan said. “The settlements will provide former students with debt relief, recoup money that was fraudulently obtained from the state, and help ensure the company will make substantial changes to its practices for future students.”

EDMC operates 110 schools in 32 states and Canada through four education systems, including Argosy University, The Art Institutes, Brown Mackie College and South University. In Illinois, EDMC operates the Illinois Institute of Art — Chicago, the Illinois Institute of Art — Schaumburg, the Illinois Institute of Art — Tinley Park, Argosy University Chicago, and Argosy University Schaumburg.

Attorney General Madigan began investigating EDMC after a former EDMC employee filed a whistleblower lawsuit, U.S. ex rel. Lynntoya Washington, et al., v. Education Management Corporation, et al., in the Western District of Pennsylvania. The lawsuit alleged that EDMC knowingly violated a ban on compensating its recruiters based on the number of students the recruiters enrolled, and fraudulently induced the federal government and the state of Illinois into providing financial assistance to EDMC students. Based on an extensive investigation, Madigan's office filed a joint lawsuit with the United States, California, Florida and Indiana against EDMC in 2011. Minnesota subsequently joined the case.

After receiving numerous complaints from current and former EDMC students, Madigan and other state attorneys general also initiated a multistate consumer investigation, including a review of consumer complaints and company documents and interviews with former EDMC employees.

EDMC Must Reform Its Practices

Under the consumer agreement, EDMC must:

-Not make misrepresentations concerning accreditation, selectivity, graduation rates, placement rates, transferability of credit, financial aid, veterans' benefits, and licensure requirements. EDMC shall not engage in deceptive or abusive recruiting practices and shall record online chats and telephone calls with prospective students.

-Provide a single-page disclosure to each prospective student that includes the student's anticipated total cost, median debt for those who complete the program, the default rate for those enrolled in the same program, warning about the unlikelihood that credits from some EDMC schools will transfer to other institutions, the median earnings for those who complete the program, and the job placement rate.

-Require every prospective student utilizing federal student loans or financial aid to submit information to the interactive Electronic Financial Impact Platform (EFIP) in order to obtain a personalized picture of the student's projected education program costs, estimated debt burden and expected post-graduate income.

-Reform its job placement rate calculations and disclosures to provide more accurate information about students' likelihood of obtaining sustainable employment in their chosen career.

-Not enroll students in programs that do not lead to state licensure when required for employment or that, due to lack of accreditation, will not prepare graduates for jobs in their field.

-Require incoming undergraduate students with fewer than 24 credits to complete an orientation program prior to their first class.

-Permit incoming undergraduate students at ground campuses to withdraw within seven days of the beginning of the term or first day of class (whichever is later) without incurring any cost.

-Permit incoming undergraduate students in online programs with fewer than 24 online credits to withdraw within 21 days of the beginning of the term without incurring any cost.

-Require that its lead vendors, which are companies that place website or pop-up ads urging consumers to consider new educational or career opportunities, agree to certain compliance standards. Lead vendors shall be prohibited from making misrepresentations about federal financing, including describing loans as grants or "free money;" sharing student information without their consent; or implying that educational opportunities are, in fact, employment opportunities.

The consumer agreement will also put in place a significant interactive online financial disclosure tool required for all prospective students who utilize federal student aid or loans. The impending online system, called the Electronic Financial Impact Platform (EFIP), is currently under the final stages of development by the U.S. Consumer Financial Protection Bureau (CFPB) and state attorneys general. Based on a prospective student's individual data, EFIP will produce a detailed financial report that includes the student's projected financial commitment, living expenses and potential future earnings.

As part of the settlement, Thomas Perrelli, former U.S. Associate Attorney General, will independently monitor the company's settlement compliance for three years and issue annual reports.

Students who will receive automatic relief related to outstanding EDMC institutional loans must have been enrolled in an EDMC program with fewer than 24 transfer credits, withdrawn within 45 days of the first day of their first term, and their final day of attendance must have been between January 1, 2006 and December 31, 2014.

The cases were handled by Assistant Attorneys General Jennifer Zlotow, Kate Costello, Harpreet Khera, and Jim Cummings of the Special Litigation Bureau and Assistant Attorneys General Joseph Sanders and Samuel Levine of the Consumer Fraud Bureau.