CFPB Takes Action Against Aequitas Capital Management for Aiding Corinthian Colleges' Predatory Lending Scheme

Bureau’s Proposed Settlement Seeks $183.3 million in Relief for 41,000 Harmed Student Borrowers

AUG 17, 2017

WASHINGTON, D.C. – The Consumer Financial Protection Bureau today filed a complaint and proposed settlement against Aequitas Capital Management, Inc. and related entities, for aiding the Corinthian Colleges’ predatory lending scheme. The CFPB alleges that Aequitas enabled Corinthian to make high-cost private loans to Corinthian students so that it would seem as if the school was making enough outside revenue to meet the requirements for receiving federal student aid dollars. The risky loans saddled students with high-priced debt that both Aequitas and Corinthian knew students could not afford. Under the CFPB’s proposed settlement, if approved, about 41,000 Corinthian students could be eligible for approximately $183.3 million in loan forgiveness and reduction. In collaboration with the CFPB, several state attorneys general have also reached proposed settlements with Aequitas.

“Tens of thousands of Corinthian students were harmed by the predatory lending scheme funded by Aequitas, turning dreams of higher education into a nightmare,” said CFPB Director Richard Cordray. “Today’s action marks another step by the Bureau to bring justice and relief to the borrowers still saddled with expensive student loan debt. We will continue to address the illegal lending practices of for-profit colleges and those who enable them.”

Aequitas Capital Management, Inc. and related entities are based in Lake Oswego, Ore. Aequitas was a private equity firm that purchased or funded about $230 million in Corinthian Colleges' private loans, branded by the school as "Genesis loans." On March 10, 2016, the Securities and Exchange Commission took action against Aequitas, alleging they had defrauded more than 1,500 investors. A receiver was appointed to wind down Aequitas and distribute its remaining assets.

The Bureau's complaint alleges that Aequitas violated the Dodd-Frank Wall Street Reform and Consumer Protection Act's prohibitions against abusive acts and practices by funding and supporting Corinthian's predatory Genesis loan program. Specifically, the Bureau alleges that Aequitas and Corinthian plotted to make it seem as if the school was getting outside revenue in the form of the Genesis loans, when in reality Corinthian was paying Aequitas to support the loan program. Corinthian and Aequitas engaged in this charade to satisfy Corinthian's obligations under the 90/10 rule, a federal law requiring for-profit schools to obtain at least 10 percent of their revenue from other sources in order to get federal loan dollars.

Knowing that its students could not generally afford the additional 10 percent charge, Corinthian created the Genesis loan program to cover it. Corinthian enlisted Aequitas to purchase the existing Genesis loans, or originate new Genesis loans, so that they could be counted as a private source of revenue under the 90/10 rule. The Bureau charges that both Corinthian and Aequitas knew most Corinthian student borrowers would default on these loans. Under the scheme, the defaults would not affect Aequitas because Corinthian was committed to buying back all delinquent loans.

Enforcement Action

Pursuant to the Dodd-Frank Act, the CFPB has the authority to take action against institutions or individuals engaging in unfair, deceptive, or abusive acts or practices or that otherwise violate federal consumer financial laws. Under the proposed settlement, if approved by the U.S. District Court in Oregon, Aequitas and related entities would be required to:

- **Forgive Genesis loans in connection with certain closed schools:** Aequitas would forgive all outstanding balances on Genesis loans for borrowers who meet certain eligibility requirements. Eligible borrowers are those who did not complete their coursework or graduate and were enrolled at schools Corinthian announced in April 2015 would be closed; those who withdrew from those schools on or after June 1, 2014; and those who did not complete their coursework or graduate and were enrolled at the schools Corinthian sold to Zenith Education Group that subsequently closed.

- **Forgive Genesis loans in default:** Aequitas would forgive all outstanding balances for any Genesis loans it owns that were 270 days or more past due as of March 31, 2017.
- **Reduce all other Genesis loans by more than half:** On all other Genesis loans it owns, Aequitas would reduce the principal amount owed as of March 31, 2017 by 55 percent, and would forgive any accrued and unpaid interest, fees, and charges that were 30 or more days past due as of March 31, 2017. Borrowers could opt to have their monthly payments lowered after the remaining loan balance is reduced by 55 percent. Borrowers would receive a notice of this option, along with an explanation of the costs and benefits of this option versus maintaining their previous monthly payment amount.

If the proposed settlement is approved by the court, eligible borrowers will be notified within 90 days after approval. To ensure that they receive this notice, all borrowers should make sure their loan servicer has their current address.

A copy of the CFPB's complaint can be found at:
http://files.consumerfinance.gov/f/documents/201708_cfpb_aequitas-complaint.pdf

A copy of the proposed settlement can be found at:
http://files.consumerfinance.gov/f/documents/201708_cfpb_aequitas-proposed-settlement.pdf

This action is among a series of steps the CFPB has taken to help consumers who were harmed by the predatory lending scheme by Corinthian Colleges. In September 2014, the CFPB sued Corinthian Colleges, Inc. for tricking tens of thousands of students into taking out private Genesis loans to cover expensive tuition costs by advertising bogus job prospects and career services. In 2015, Corinthian filed for bankruptcy and was liquidated. The Bureau subsequently obtained a $530 million default judgment against Corinthian, which could not pay the judgment because it had dissolved and its limited assets had already been distributed in its bankruptcy case. The CFPB has continued to pursue relief for consumers harmed by Corinthian's unlawful conduct. The proposed settlement is the latest step in that effort.

Other borrowers who were preyed upon by Corinthian have had loan balances reduced as a result of the Bureau's efforts. The Educational Credit Management Corporation (ECMC), a company that provides support for the administration of the Federal Family Education Loan Program, worked with the Department of Education in November 2014 to acquire a substantial number of Everest and WyoTech campuses, formerly owned by Corinthian. ECMC agreed not to operate a private student loan program for seven years and agreed to a series of new consumer protections. In February 2015, the CFPB announced that, through an action with ECMC, it had secured $480 million in forgiveness for these Genesis loan borrowers.

The proposed settlement submitted today is not a finding or ruling that the company has actually violated the law. It has been filed with the U.S. District Court for the District of Oregon, and is only effective if it is approved by the presiding judge.

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The Consumer Financial Protection Bureau is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives. For more information, visit consumerfinance.gov.

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