

Transcript

April 3, 2013

Good morning everybody, Massachusetts Attorney General Martha Coakley. The complaint that we are filing today against Sullivan & Cogliano is a for-profit school based in Brockton, Massachusetts. In its advertisements to students, we allege that the school grossly misrepresented both the quality and the scope of the education the students would receive in its training programs, and misrepresented the likelihood of actual job placement after graduation.

I'll discuss those specific allegations in a moment, but what I want to talk about very briefly is that while we have this complaint against one school, our concerns about this for-profit industry and the business model that they use go well beyond this one school, and the consequences of this model affect not only those students here in Massachusetts, but every taxpayer in the Commonwealth. Let me explain why.

For-profit schools are big business. Many of these schools are owned by Wall Street; they generate billions of dollars every year. They are also very expensive. Certificate programs cost an average of four to five times what a comparable program in a not-for-profit program or a public school might cost. To maximize the profits in this industry, the schools spend heavily on marketing. In 2009, they spent more than 22 percent of revenues on marketing, 19 percent went to profits for their investors and they spent just 17 percent on the actual instruction of the students.

You can see in this chart national statistics in the 2012 Harkin report exactly where the priorities lie in this industry. Not, apparently, in educating the students.

The marketing is predominantly focused on students from low income families and others, including our veterans in large degree, who are eligible for federal loans and funds. And as a result the majority of the funds used to pay tuition comes from public taxpayers. About 96% of students who attend for-profit schools in this country take out federal loans to help finance. And in 2009, taxpayer investment in for-profit schools was at least 32 billion dollars. That means we all have a stake in whether for-profit schools are wasting federal tax dollars that can and should be used elsewhere for education.

Where have we seen this before? Deceptive marketing, Wall Street investment, mass default on loans that have been funded on taxpayers—does that sound familiar? Well, we saw this pattern during the subprime mortgage crisis, and we're seeing similar patterns in the for-profit school industry and their business model. In fact just late last year in Massachusetts, we saw

the abrupt closing of ACI, another for-profit school in Massachusetts, leaving students and faculty in the lurch. That is still being sorted out in bankruptcy court.

And part of what we've been concerned about is, we've been down this road before with predatory practices. This time we need to see red flags—like at ACI and like we're talking about today—earlier, and we need to act.

Let me explain why the marketing tactics at such schools are so alarming. They use aggressive and in many instances highly unfair and deceptive means to get prospective students to sign on the bottom line to engage with these schools. They often exaggerate the quality and the scope of the actual training at the school, and they also misrepresent what the student is going to be able to do in terms of job employment and placement after graduation. This is what we found at this school, at Sullivan & Cogliano.

While the school advertises placement rates of over 70 percent of graduates, the actual number is closer to 25 percent. And that's in part because this school counts anyone who got a job after their certificate, including at a fast food restaurant, in big box stores, they counted those as success rates for having completed the program, even though they may have had little or any relationship with the training they were allegedly getting at the schools

And while the ads for Sullivan & Cogliano showed students in blue smocks and clinical settings with stethoscopes, in fact, and we spoke to a number of students who believed that was the experience that they would get at that school, they thought they would get clinical training and be certified in weeks to directly work with patients in hospital and doctors' offices. We believe those claims were patently false. And you can see from in looking at this typical advertisement—blue scrubs, stethoscope—no graduate ever learned to use that kind of clinical training and had no clinical placement in weeks, and no graduate received a medical assistant job.

So what are these high tuition rates combined with false and unfair advertising and untrained graduates result in? You guessed it: unsustainable loans. Because take on debt with the idea you'll pay it off when you get a job—that only works when you actually get a job, doesn't it?

So students at for-profit schools accounted for 47 percent of all student loan funds defaulting. For comparison sake, default rates at even the worst of the subprime lenders was much, much lower than that. Now the default rate doesn't seem to impact the school or its business model, it only impacts the students and the taxpayers.

So the schools make money no matter what, but because of the heavy taxpayer funding of these loans, it's students and taxpayers who are left on the hook when the default occurs. It's why we have launched investigations into the unfair and deceptive marketing of this kind of

for-profit school. We also believe that we need additional regulatory and statutory oversight at the state and federal level on these institutions to protect students, to protect taxpayers, and to change a predatory business model used at both brick and mortar schools, as we've seen in this instance, as well as schools that use online, sometimes in combination with a location sometimes exclusively online.

It's why we're urging students to do their homework before enrolling at a for-profit school. They need to be smart consumers before they sign on the dotted line, before they buy and take on crushing debt for a so called education that may be worthless.

Not all of these schools that we're aware of use unfair and deceptive models of business, but we believe that the students need to do their homework to make sure what they're signing up for is what they expect and is as good or better value than what they might expect at our community colleges and other not for-profit institution in Massachusetts.

We all have a stake in this, and we are prepared here at the office of the attorney general to take on this fight; to educate all consumers particularly our veterans; and to try to hold accountable those who would victimize students and taxpayers. I hope that others are ready to join us. Thank you.