

Corinthian Colleges Inc.
CFPB Investigation/Company Student Lending Programs
Background/Key Points

Background: In December 2013, the Company received a “Notice and Opportunity to Respond and Advise” (NORA) letter from the Consumer Financial Protection Bureau (CFPB). The NORA letter states that the CFPB Office of Enforcement is considering recommending that the CFPB take legal action against the Company. If such action is brought, the Office of Enforcement expects to allege that the Company violated the Consumer Financial Protection Act of 2010, 12 U.S.C. §5536, as it relates to a student lending programs offered to Corinthian students. The NORA process allows the company to submit a written statement setting forth any reasons of law or policy why the Company believes the CFPB should not take legal action against it. The Company submitted its response to the NORA letter on January 13, 2014. (For more detail about the CFPB investigation, see the Company’s [FY 13 Form 10-K](#), [Q1 14 Form 10-Q](#), and [Form 8-K](#) filed by the Company on January 6, 2014).

As outlined below, the Company believes that its acts and practices relating to student loans are lawful and that its lending program is essential to many students.

Corinthian is committed to providing open access to post-secondary education. Without loans to supplement federal and other financial aid, many students would be unable to pursue career education.

- Historically, students relied on major private lenders, such as Sallie Mae, to supplement their federal financial aid. However, these lenders stopped extending loans to students at career colleges in the wake of the financial crisis of 2007-2008.
- In response to tight credit markets, since 2008 Corinthian has either funded its own gap financing program for students (called Genesis), or arranged third-party supplemental financing through a third party. Today, the Genesis loan program is in place, and the Company is currently soliciting new third-party lenders through an RFP process.
- Although the economy has improved, most private lenders have not resumed lending to Corinthian students. Eliminating Genesis or similar loan programs would deprive many students of the opportunity to pay for school, graduate, and build careers in their chosen fields.

Supplemental loans made to students are modest in size and have reasonable interest rates.

- Fewer than 40 percent of Corinthian’s students decide to take out supplemental loans.
- The average supplemental loan amount per borrower is \$4,700 and the loans are offered only to students who have a gap between their educational costs and available financial aid from all other government and personal sources.
- The average annual interest rate for a Genesis loan is 9.0 percent and the maximum rate is 9.9 percent. These interest rates have remained constant since late 2012, and they are well below market rates of 16% or higher for unsecured loans.

The federal student loan program lends to the same students who receive Genesis loans, and on similar terms.

- Genesis loans are offered to students to cover any gap between the cost of tuition and all other sources of financial aid, including federal student aid. Therefore, the federal government lends to essentially all Genesis borrowers. In fact, the federal student loan program lends several times more to students who participate in the Genesis program than Genesis does.
- The Genesis loan program uses most of the same underwriting standards and risk-limiting criteria as used in the federal government's student loan program, and for the same purpose—to ensure that students have the opportunity to invest in post-secondary education. Both lending programs are open access, but limit the amount students can borrow annually and do not lend to students who already have delinquent loans.

Prior to signing a Genesis loan agreement, students are encouraged to explore their student loan options, and all material terms of the loans are clearly disclosed in enrollment and financial aid documents.

- Students who need additional financing to pay for school are encouraged to pursue a variety of options.
- Students who decide to apply for Genesis loans are clearly informed of all material terms – including the loan amount, possible purchase by the Company, interest rate, repayment schedule, and that interest-only payments are required while they are in school.

The performance of the Genesis loan program is a product of Corinthian's commitment to open access.

- Corinthian wants every student to have the opportunity to succeed, so it makes funds available without regard to the student's credit history, as does the federal government. A student's credit worthiness is not a reliable predictor of success in school; a student who commits herself to a program is likely to succeed and pay back her student loans. Corinthian believes the tradeoff is worth the risk.

Corinthian devotes substantial resources to helping students comply with the terms of their financial aid.

- To prevent defaults and encourage repayment, Corinthian provides free financial literacy instruction and extensive counseling regarding loan obligations. The Company also has a comprehensive default prevention program designed to help students understand and satisfy their obligations. This is a value-added service provided to all student borrowers (whether federal or private, and regardless of who owns the loan).
- Students are required to make a small monthly payment on their ASFG loans while in school (typically \$35/month), to help students learn good repayment habits and ultimately help them perform better on their student loans.
- The Genesis and its predecessor loan program also offer forbearances to students experiencing hardship. Over 54,000 students have been granted forbearances since 2008.

Corinthian schools provide educational opportunity to underserved, low-income communities, and deliver good value to their students.

- Many of Corinthian's schools are located in low-income communities that other institutions do not serve.
- Many students choose Corinthian schools over community colleges. According to the Company's most recent student survey, approximately 40% of its students have previously attended community colleges. Many of these students found that these institutions did not serve their needs, either because of a lack of hands-on training, waiting lists for desired programs or classes, large class sizes, or a lack of adequate support from faculty and staff.
- In contrast, Corinthian schools seek to provide practical, hands-on training, and the institutional support students need to succeed.
- Corinthian schools graduated almost 38,000 students last year. Assisted by over 750 career services representatives company-wide, two out of three of these graduates found employment in their fields of study.
- The Parthenon Group, an education consultancy, concluded that graduates from two-year career colleges like Corinthian's schools saw their income increase nearly 54 percent after graduation – roughly \$250,000 in additional income over the course of a 30-year career.

2/4/14