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Equity Research

WELLS FARGO SECURITIES

Department Of Education Sanctions Heald College

Under Secretary Promises Additional Scrutiny

Education

- **Further sanctions against Corinthian Colleges** from the U.S. Department of Education (ED) are likely to force the closure of 152-year old Heald College. ED found 947 instances of "misstated" placement reporting and yesterday (4/14/16) demanded the payment of a $29.7 million fine, the cessation of all new Title IV-supported enrollments and full cessation of Title IV participation at Heald's Stockton and Salinas campuses. The net effect of these measures, in our opinion, will be to deter any prospective buyers (not already deterred by the California attorney general's ongoing lawsuit,) and likely exacerbate the company's existing cash crunch, effectively placing Heald out of business.

- **ED asserts extensive violation.** Following an investigation into the regionally-accredited, West Coast-based business college's placement reporting, ED found in its judgment, multiple instances in which Heald applied too broad a definition of placement in occupational field in reporting its placement rates to prospective students. Examples provided include suspiciously large numbers of students excluded from the calculation as "unavailable for employment," hiring by temporary agencies engaged by Corinthian, and students employed in occupations that could not reasonably be considered "in field," such as food service, or that predated their enrollment.

- **The standard is unclear.** As a regionally-accredited institution, Heald is not required to report job placement by its accreditor. The 2011 Gainful Employment rule (component that was not overturned by the courts) requires all affected institutions (i.e. all non-degree programs and all programs offered by proprietary institutions,) to post employment rates only when required by its accreditor. The rule does not establish standards for calculating rates when not otherwise required and the basis for ED's finding that Heald's placement claims were "inaccurate" appears unclear. The company has disputed the findings and described them as "unsubstantiated."

- **Heald decision could hasten movement toward loan forgiveness.** An apparent grassroots movement endorsed by California Attorney General Kamala Harris has called for the full forgiveness of all Corinthian federal student loans and we understand from sources close to ED that the political pressure to acquiesce to this demand (though not required by law,) is substantial. Were this to happen, the taxpayer cost could be in excess of $100 million, which could substantially erode Congressional support for the sector, in our opinion.

- **Implications for the sector are incrementally negative in our view**. ED's move against Heald and the consequences of that action are unprecedented. Its press release announcing the measures described putting students "on notice" regarding potential abuse across the sector and called on Congress to "take action." It also reasserted the establishment of a federal interagency task force to "ensure proper oversight of for-profit institutions," though provided no information regarding the make-up, scope or schedule of this task-force.

- **Read-through for other institutions is limited.** Vocational schools report placement consistent with the requirements of their national accreditors. Among regionally-accredited institutions however, most decline to offer placement data, citing the absence of a requirement. Only **Ashford University (BPI)** reports job placement data as determined by survey responses. This voluntary reporting would appear to place the company at a higher level of risk than its peers that refrain from making any offering with respect to employment outcomes.

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