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Effect of Corinthian Colleges' Closure on Student Financial Aid: Frequently Asked Questions

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Summary

Corinthian Colleges, Inc. (CCI) was the parent company of several private, for-profit institutions of higher education, including the Everest Institute, Everest Colleges, Heald Colleges, and Wyotech Technical Schools. CCI operated more than 100 of these institutions across the nation, with total enrollments of approximately 72,000 students who annually received roughly $1.4 billion in federal financial aid.

In summer 2014, the Department of Education (ED) limited CCI's access to federal student aid in response to CCI's failure to address concerns relating to a variety of practices, including failing to provide ED with requested data related to CCI's Title IV federal student aid participation. To avoid abrupt closure of its schools due to the financial stresses that the limited access to federal student aid put on CCI, the company and ED reached an agreement under which CCI agreed to sell or "teach-out" its educational programs. Subsequently, the Zenith Education Group (Zenith) was formed by the Education Credit Management Corporation (ECMC) as a nonprofit entity for the purpose of buying a large portion of CCI's schools. Those CCI schools not purchased by Zenith closed.

This report answers several frequently asked questions regarding the effects of the sale and closure of CCI's schools as they relate to former CCI students' student aid, including the following:

- Are former CCI students eligible to have their student loans discharged?
- How many former CCI students are eligible for or have received federal student loan discharge as a result of CCI's actions?
- How will the discharge of federal student loans affect former CCI students' future eligibility for loans?
- Will the discharge of student loans create an income tax liability for former CCI students?
- Is there any relief for former CCI students who received Pell Grants?
- Is there any relief for former CCI students who received GI Bill benefits?

Additional information on the HEA federal student loan programs is available in CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole; and CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*, by Alexandra Hegji and David P. Smole.

Additional information on the Pell Grant program is available in CRS Report R42446, *Federal Pell Grant Program of the Higher Education Act: How the Program Works and Recent Legislative Changes*, by Cassandria Dortch.

Additional information on veterans' education benefits is available in CRS Report R42755, *The Post-9/11 Veterans' Educational Assistance Act of 2008 (Post-9/11 GI Bill): A Primer*, by Cassandria Dortch; and CRS Report R42785, *GI Bills Enacted Prior to 2008 and Related Veterans' Educational Assistance Programs: A Primer*, by Cassandria Dortch.

Additional information on institutional eligibility to participate in the Higher Education Act Title IV federal student aid programs is available in CRS Report R43159, *Institutional Eligibility for Participation in Title IV Student Financial Aid Programs*, by Alexandra Hegji.

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Introduction

Corinthian Colleges, Inc. (CCI) was the parent company of several private, for-profit institutions of higher education, including the Everest Institute, Everest Colleges, Heald Colleges, and Wyotech Technical Schools (Wyotech). CCI operated more than 100 of these institutions across the nation, with total enrollments of approximately 72,000 students who annually received roughly $1.4 billion in federal financial aid.[1]

On June 19, 2014, the U.S. Department of Education (ED) announced that it had placed CCI on an increased level of financial oversight known as Heightened Cash Monitoring 1 (HCM1), coupled with a 21-day waiting period for funds reimbursement, as a stipulation to its continued participation in the Higher Education Act (HEA) Title IV federal student aid programs.[2] ED had taken this action in response to CCI's failure to address concerns relating to a variety of practices, including failing to provide ED with requested data related to inconsistences in job placement rates that had been presented to students.[3]

In response to its limited access to federal student aid funds, CCI announced it might have to close its schools. On July 3, 2014, to avoid abrupt closure, CCI and ED reached an agreement under which the company agreed to develop a plan to sell or teach-out[4] its educational programs. In exchange, ED agreed to immediately release $16 million in federal student aid (FSA) funds to CCI's current students.[5]

Subsequently, the Zenith Education Group (Zenith) was formed as a nonprofit provider of career education programs. Zenith is a subsidiary of the Educational Credit Management Corporation (ECMC), a nonprofit student loan guaranty agency involved in the administration of loans made through the Federal Family Education Loan (FFEL) program. Zenith was formed for the purpose of buying a large portion of CCI's schools. In February 2015, Zenith agreed to buy 53 of CCI's schools. As part of the terms of the final agreement with ED and the Consumer Financial

[1] U.S. Department of Education, "U.S. Department of Education Heightens Oversight of Corinthian Colleges," press release, June 19, 2014, http://www.ed.gov/news/press-releases/us-department-education-heightens-oversight-corinthian-colleges.

[2] ED has in place cash management regulations, which institutions participating in HEA Title IV programs (e.g., Pell Grant, Subsidized and Unsubsidized Direct Loans) are required to follow when requesting and managing federal student aid (FSA) program funds. Typically, schools operate under the "advance payment method" of requesting FSA funds. In this case, an institution requests FSA funds from ED. If ED accepts the request, it permits the requesting school to draw down federal funds from its FSA processing system. However, in certain cases, ED may require an institution to use a different form of cash management, such as HCM1 in the case of CCI. Under HCM1, schools must first disburse financial aid to eligible students from institutional funds and may then request to draw down federal funds from ED's processing system. In CCI's case, after it disbursed financial aid funds to students it was required to wait 21 days before it could request and draw down federal funds from the processing system. See 34 C.F.R. 668.162.

[3] U.S. Department of Education, "U.S. Department of Education Heightens Oversight of Corinthian Colleges," press release, June 19, 2014, http://www.ed.gov/news/press-releases/us-department-education-heightens-oversight-corinthian-colleges.

[4] A teach-out plan is a "written plan that provides for the equitable treatment of students if an institution of higher education ceases to operate before all students have completed their program of study." HEA §487(f)(2). Teach-out plans help enable students to complete their program of study either at the closing institution or a second institution that agrees to provide an educational program to the former institution's students. For additional information on teach-out plans, see CRS Report R43159, *Institutional Eligibility for Participation in Title IV Student Financial Aid Programs*, by Alexandra Hegji.

[5] U.S. Department of Education "U.S. Department of Education Accepts Operating Plan from Corinthian Colleges, Inc.," press release, July 3, 2014, http://www.ed.gov/news/press-releases/us-department-education-accepts-operating-plan-corinthian-colleges-inc.

Protection Bureau (CFPB),[6] Zenith agreed to provide $480 million in debt relief to former CCI students for private student loans advanced by CCI to its students (known as Genesis loans).[7]

On April 14, 2015, ED notified CCI that it would fine the company $30 million for misrepresenting its job placement data at its Heald College locations. Approximately one week later, CCI closed its remaining 30 schools, at which approximately 13,500 students were enrolled at the time.[8] In early May 2015 CCI filed for Chapter 11 bankruptcy under the U.S. Bankruptcy Code.[9] Finally, on November 16, 2015, ED announced additional findings against CCI for misrepresenting placement rates to former CCI students and prospective students at its Everest Colleges and Wyotech campuses in California and its Everest University online program based in Florida.[10]

Student Loans

Are former CCI students eligible to have their student loans discharged?

Former CCI students may be provided some relief from being required to repay their student loans, depending on the type of loan they seek to have discharged and specific borrower circumstances.

Private Education Loans

Under the terms of its agreement with ED and the CFPB concerning Zenith's purchase of certain CCI schools, Zenith agreed to provide approximately $480 million in debt relief for former CCI students who took out private education loans, known as Genesis loans, which were advanced by CCI to its students. The debt relief will benefit former CCI students with qualifying loans, regardless of whether the CCI schools they attended were purchased by Zenith. These borrowers' total loan balances will immediately be reduced by 40%, but borrowers will remain responsible for repaying the remaining balance of the loan. Borrowers who are eligible for this type of debt

[6] The CFPB had been pursuing a separate cause of action against CCI, alleging predatory lending and illegal collections tactics. A federal court recently entered a default judgment against CCI, ordered that CCI was liable for more than $530 million, and prohibited the company from engaging in future misconduct. Consumer Financial Protection Bureau, "CFPB Wins Default Judgment Against Corinthian Colleges for Engaging in a Predatory Lending Scheme," October 28. 2015, http://www.consumerfinance.gov/newsroom/cfpb-wins-default-judgment-against-corinthian-colleges-for-engaging-in-a-predatory-lending-scheme/.

[7] U.S. Department of Education, "More Than 50 Corinthian Campuses Transition to Nonprofit Status Under Zenith Education Group," press release, February 3, 2015, http://www.ed.gov/news/press-releases/more-50-corinthian-campuses-transition-nonprofit-status-under-zenith-education-group.

[8] Joseph A. Smith, *First Report of the Special Master for Borrower Defense to the Under Secretary*, U.S. Department of Education, September 3, 2015, p. 5.

[9] U.S. Department of Education, Federal Student Aid, "History of Corinthian Colleges' Agreement with the U.S. Department of Education," https://studentaid.ed.gov/sa/about/announcements/corinthian#history, accessed June 3, 2015.

[10] U.S. Department of Education, "Department of Education and Attorney General Kamala Harris Announce Findings from Investigation of Wyotech and Everest Programs," press release, November 17, 2015, http://www.ed.gov/news/press-releases/department-education-and-attorney-general-kamala-harris-announce-findings-investigation-wyotech-and-everest-programs.

relief do not need to take additional steps to receive it. Their loan servicer will notify them if they qualify for the relief.[11]

Federal Student Loans

For HEA Title IV federal student loans (i.e., loans made under the Direct Loan (DL), Federal Family Education Loan (FFEL), and Perkins Loan programs) different procedures for borrowers to receive debt relief may apply depending on whether a borrower's loan would be discharged on the basis of a school closure or on the basis of the borrowers asserting a defense against repayment.

Closed School Loan Discharge

Students who attended a CCI school that closed may be eligible to have the full balance of their outstanding HEA Title IV loans discharged. In general, borrowers of Title IV loans may be eligible to have the full balance of their outstanding HEA Title IV loans discharged if they, or the student on whose behalf a parent borrowed in the case of Parent PLUS Loans, are unable to complete the program in which they enrolled due to the closure of the school.[12] Borrowers who have their loans discharged due to a school closure are also eligible to be reimbursed for any amounts previously paid on those loans, and if any adverse credit history was associated with the loan (e.g., default), the loan discharge will be reported to credit bureaus so that they may delete the adverse credit history associated with the loan.[13]

Typically, to be eligible for loan discharge due to school closure, the student must have stopped attending the school within 120 days of the school's closing date and the student must also have been unable to complete the program of study at either the closed school or a comparable educational program at another school, either through a teach-out or by transferring credits to another school.[14] If the closing school offers the option for students to complete their education through a teach-out at another school, a student may refuse the option and would still qualify for loan discharge. If a student refuses the teach-out, later enrolls at another school in a program substantially similar to the one in which he or she had been enrolled, receives credit for work completed at the closed school, and completes the new program, then the student may not qualify for closed school discharge.[15]

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[11] For additional information on the terms of the agreement as they pertain to private education loans, see Consumer Financial Protection Bureau, "Special Bulletin for Current and Former Students Enrolled at Corinthian-Owned Schools," February 3, 2015, http://files.consumerfinance.gov/f/201502_cfpb_bulletin_current-and-former-students-enrolled-at-corinthian-owned-schools.pdf.

[12] HEA §437(c)(1); HEA §455(a)(1); HEA §464(g).

[13] 34 C.F.R. §685.214(a)(4).

[14] Guidance provided by ED to former CCI students indicates that if a student enrolled in a comparable educational program at a new school, completed it, and received credits for the classes taken at the closed school, then the student is ineligible for loan discharge; but, if the student enrolled in and completed a comparable program of study at a new school and the new school did not give them credit for *any* coursework completed at the closed school, then the student would be eligible for loan discharge. U.S. Department of Education, Federal Student Aid, "Frequently Asked Questions About Corinthian Colleges," Question 9, https://studentaid.ed.gov/sa/about/announcements/corinthian/faq#loan-discharge, accessed December 9, 2015. Alternatively, if a student transferred credits to a new school but completed a completely different program of study at the new school, then the student is eligible for loan discharge, as the program at the new school is entirely different than the one for which the loans were intended at the previous school. U.S. Department of Education, Federal Student Aid, "Q&A on Closed School Discharge," https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/closed-school#q-and-a, accessed December 9, 2015.

[15] U.S. Department of Education, Federal Student Aid, "Frequently Asked Questions About Corinthian Colleges,"

On June 8, 2015, ED announced that borrowers who were attending the CCI schools that closed in April 2015, and those students who withdrew within 120 days of those schools closing, would be immediately eligible for closed school discharge of their Title IV student loans, so long as they neither finish their program of study through a teach-out[16] nor transfer the credits they earned at a CCI school to another school in a similar program. Additionally, ED expanded the withdrawal timeframe for students who attended those CCI schools that closed in April 2015. ED will now permit those students who withdrew from those schools after June 20, 2014, to have their Title IV student loans discharged due to school closure.[17] As a result of the expanded timeframe, ED estimates approximately 15,000 students in total are eligible to have their Title IV student loans discharged under this procedure, approximately 1,500 more students than would have been eligible without the expansion.[18]

Borrowers who are eligible for this type of relief must fill out the Closed School Loan Discharge Application and return it to their loan servicer.[19] While their applications are being considered, borrowers are required to continue making payments on their loans, although loan servicers are permitted to grant forbearance[20] until a decision is made. Additionally, to obtain discharge a borrower must cooperate with ED in any judicial or administrative proceeding brought by ED to recover amounts discharged from the school.[21] If a borrower fails to cooperate with ED, the loan discharge may be revoked.[22]

Borrower Defense Against Repayment

Borrowers who attended a CCI school that was purchased by Zenith and borrowers who attended a CCI school that closed but who are ineligible for closed school loan discharge may seek debt relief on their FFEL or DL program loans by asserting certain defenses against repayment.[23] In certain circumstances, borrowers of DL program loans may be able to assert as a defense against repayment of their loan "acts or omissions of an institution of higher education," as specified in

Question 10, https://studentaid.ed.gov/sa/about/announcements/corinthian/faq, accessed December 9, 2015.

[16] Zenith has indicated its intention to teach-out programs at 12 of the schools it acquired from CCI. Ibid, Question 39.

[17] U.S. Department of Education, Federal Student Aid, "Information about Debt Relief for Corinthian Colleges Students," https://studentaid.ed.gov/sa/about/announcements/corinthian, accessed December 9, 2015.

[18] Joseph A. Smith, *First Report of the Special Master for Borrower Defense to the Under Secretary*, U.S. Department of Education, September 3, 2015, p. 6.

[19] The Secretary is required to mail to each borrower a discharge application and an explanation of qualifications and procedures for obtaining a discharge. 34 C.F.R. §385.215(f)(3).

[20] Under forbearance, a borrower is able to stop making payments or reduce their monthly payments on their federal student loans for up to 12 months. During this time, interest continues to accrue on subsidized and unsubsidized loans.

[21] For instance, the borrower may be required to provide testimony supporting a request for discharge.

[22] 34 C.F.R. §685.214(c) & (d).

[23] Regulations for the FFEL program provide instances in which an FFEL program loan may be legally unenforceable, such that a borrower need not repay it. While the language of the FFEL program regulations does not specifically identify acts or omissions by an institution as a defense against repayment, ED has stated that the claims a borrower could bring as a defense against repayment under the FFEL program are the same as those that could be brought under the DL program. See U.S. Department of Education, "Notice of Interpretation," 60 *Federal Register* 37769-37770, July 21, 1995. There are no similar provisions related to borrower defenses for Perkins loans. However, the HEA grants the Secretary authority to "enforce, pay, compromise, waive, or release any right, title, claim, lien, or demand ...", which it appears could effectively give the Secretary discretion to discharge student loans when appropriate under these two programs. HEA §§432(a)(6), 468(2). As of academic year 2013, the Wyotech Laramie campus was the only CCI school participating in the Perkins Loan program.

regulation.[24] ED has determined in regulation that such acts and omissions are those that would "give rise to a cause of action against the school under applicable State law."[25]

If the borrower's defense is successful, ED will determine the amount of debt relief to which the borrower is entitled, which can include relief from repaying all or part of the outstanding loan balance and reimbursement for previous amounts paid toward the loan.[26] Additionally, if any adverse credit history was associated with the loan (e.g., default) the loan discharge will be reported to credit bureaus so that they may delete the adverse credit history associated with the loan.[27]

Unlike the case of a loan discharge due to school closure, there is no clearly established process for a borrower to seek debt relief through a defense against repayment, as ED has infrequently needed to process such claims in the past. On October 20, 2015, ED announced it would establish a negotiated rulemaking committee to create procedures for a borrower to use in a defense against repayment claim and to determine which IHE acts and omissions a borrower may assert in such a claim.[28] In the interim, ED appointed a Special Master tasked with overseeing borrower defense issues for former CCI students, specifically, and to help develop a broader system to support students at other IHEs who believe they may have a defense against repayment.[29] Additionally, ED has determined that borrowers who submitted a claim for borrower defense before June 8, 2015, and those borrowers who subsequently do so, may request that their loans be placed in forbearance and that collections on any defaulted loans cease.[30]

ED has created a streamlined process for asserting a defense against repayment for certain borrowers who attended CCI's Heald College locations. ED found that CCI misrepresented job placement rates for a majority of programs at its Heald College campuses between 2010 and 2014 and fined the company $30 million for those misrepresentations. ED determined that these findings qualify borrowers enrolled in specified Heald College programs during specified time periods for a loan discharge through a newly established expedited process specific to those former Heald College students.[31] ED has provided a list of Heald College programs and enrollment periods that determine which borrowers may be eligible for the expedited process on

[24] HEA §455(h).

[25] 34 C.F.R. §685.206(c). In the instance of CCI, a cause of action under state law might include alleged violations of state consumer protections laws. Several states' attorneys general have brought cases against or are investigating CCI for such violations. See Letter from Jack Conway, Kentucky Attorney General, George Jepson, Connecticut Attorney General, and Douglass S. Chin, Hawaii Attorney general, et al. to Arne Duncan, U.S. Secretary of Education, May 13, 2015, http://ag.ky.gov/pdf_news/corinthian-letter.pdf. The borrower is not required to sue or obtain a judgment against a school in state court to be able to assert the defense; rather, he or she must be able to prove to ED the elements required to establish the claim under relevant state law. Letter from Elizabeth Warren, Honorable, et al. to Arne Duncan, Secretary U.S. Department of Education, December 9, 2014.

[26] After debt relief is obtained, ED may require the repayment of funds and the purchase of the loans by the school whose acts or omissions resulted in the borrower's successful defense against repayment, if it is found that the unenforceability of the loan resulted from the school's violation of federal or state law or the school's negligent or willful false certification of a borrower's eligibility for the loan. 34 C.F.R. §685.308(a).

[27] 34 C.F.R. §685.206(c)(2)(iii).

[28] U.S. Department of Education, "Negotiated Rulemaking Committee: Negotiator Nominations and Schedule of Committee Meetings—Borrower Defenses," 80 *Federal Register* 63478-63480, October 20, 2015.

[29] U.S. Department of Education, "Fact Sheet: Protecting Students from Abusive Career Colleges," press release, June 8, 2015, http://www.ed.gov/news/press-releases/fact-sheet-protecting-students-abusive-career-colleges.

[30] U.S. Department of Education, Federal Student Aid, "Information about Debt Relief for Corinthian Colleges Students," https://studentaid.ed.gov/sa/about/announcements/corinthian, accessed December 8, 2015.

[31] Ibid.

its website.[32] Under the expedited process, eligible borrowers need only complete an attestation form, asserting that they relied on the fraudulent job placement rates. While borrowers' claims are being processed, they may request that their loans be placed in forbearance and that collections on any defaulted loans cease.

Recently, ED also announced findings against CCI of misrepresenting placement rates to former CCI students and prospective students at its Everest Colleges and Wyotech campuses in California and its Everest University online program based in Florida. Although ED has not yet determined whether these findings qualify borrowers enrolled at these additional CCI schools for the expedited defense against repayment process, the Special Master has begun a review of the findings and speculates that the findings will enable ED to provide borrower defense against repayment relief to the additional students at these schools.[33]

How many former CCI students are eligible for or have received federal student loan discharge as a result of CCI's actions?

Closed School Discharge

It is estimated that approximately 15,000 former CCI students may be eligible for closed school discharge under the expanded withdrawal timeframes.[34] As of November 18, 2015, the Special Master reported that ED had received 10,527 applications for closed school discharge of federal student loans from former CCI students. Of those applications, thus far, 5,814 had been approved, resulting in approximately $75,461,790 in federal student loans being discharged under the closed school discharge provisions.[35]

Defense Against Repayment

The number of borrowers potentially eligible for debt relief under a defense against repayment claim is currently unknown. However, as of November 18, 2015, 5,340 borrowers from Heald, Everest, and Wyotech schools had submitted defense against repayment claims to ED.[36] As of December 3, 2015, the Special Master has reviewed only those claims submitted by Heald students under the expedited process. He reported that he has recommended debt relief under this process for 1,312. ED has accepted these recommendations and has begun the loan discharge process, which will result in $27,832,370 in discharged Title IV loans.[37]

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[32] U.S. Department of Education, Federal Student Aid, "List of Heald College Programs and Enrollment Dates Covered by Department of Education Findings," https://studentaid.ed.gov/sa/sites/default/files/heald-findings.pdf, accessed December 9, 2015.

[33] Joseph A. Smith, *Second Report of the Special Master for Borrower Defense to the Under Secretary*, U.S. Department of Education, December 3, 2015, p. 5.

[34] Joseph A. Smith, *First Report of the Special Master for Borrower Defense to the Under Secretary*, U.S. Department of Education, September 3, 2015, p. 6.

[35] Joseph A. Smith, *Second Report of the Special Master for Borrower Defense to the Under Secretary*, U.S. Department of Education, December 3, 2015, p. 6.

[36] An additional 1,351 borrowers from other IHEs, including the Art Institute, ITT Technical Institute, and the University of Phoenix, have submitted defense against repayment claims to ED.

[37] Joseph A. Smith, *Second Report of the Special Master for Borrower Defense to the Under Secretary*, U.S. Department of Education, December 3, 2015, pp. 3-4.

How will the discharge of federal student loans affect former CCI students' future eligibility for loans?

Loan discharge due to school closure or a successful defense against repayment claim is unlikely to adversely affect a student's eligibility for future HEA Title IV loans. It appears that neither lifetime loan limit amounts nor the limits on the amount of time for which a student may receive specified loans are likely to be negatively impacted. For students who received a loan discharge due to school closure, the amount of the loan originally disbursed will not count against their lifetime loan limit amounts.[38] Moreover, the HEA specifically states that the period of attendance "at an institution at which a student was unable to complete a course of due to the closing of the institution shall not be considered for purposes of calculating the student's period of eligibility for additional assistance under this title,"[39] thus, the limits on the amount of time for which a student can receive a DL program Subsidized Loan are also unlikely to be impacted negatively.

Will the discharge of student loans create an income tax liability for former CCI students?[40]

In general, when all or part of a borrower's debt is forgiven, including student loan debt, the Internal Revenue Code (IRC) provides that the amount of the canceled debt is included in the borrower's gross income—that is, the borrower must pay income taxes on the amount of discharged debt.[41] The amount is generally included in gross income in the year of discharge.

There has been uncertainty about whether former CCI students would be taxed on the amount of their discharged federal student loans, or if they would qualify for a statutory or common law exemption, such as one of those discussed below. On December 3, 2015, the IRS issued Revenue Procedure 2015-57, which addresses the tax treatment for borrowers who took out federal student loans to attend a CCI school.[42] Under the revenue procedure:

1. former CCI students whose federal student loans are discharged under a defense against repayment claim will not be subject to tax on the amount of the loan discharge;

[38] Typically, limits are placed on the total amount of outstanding DL program Subsidized and Unsubsidized Loans and Perkins Loans a student may borrower. Additionally, first-time borrowers on or after July 1, 2013, may not receive DL program Subsidized Loans for more than 150% of the published length of their academic program (e.g., up to six years for a four-year degree program). For additional information on loan limits, see CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole; and CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*, by Alexandra Hegji and David P. Smole.

[39] HEA §§437(c)(3), 464(g)(3).

[40] This section was prepared by Erika Lunder.

[41] See IRC §61(a)(12); see also U.S. v. Kirby Lumber Co., 284 U.S. 1 (1931).

[42] The revenue procedure does not address borrowers who borrowed federal student loans to attend IHEs other than a CCI school and whose loans are discharged under a defense against repayment claim or a closed school discharge. IRS Rev. Proc. 2015-57, available at https://www.irs.gov/pub/irs-drop/rp-15-57.pdf.

2. former CCI students[43] whose federal student loans are discharged under the closed school discharge procedure will not be subject to tax on the amount of the loan discharge;[44] and
3. former CCI students will not have to increase the taxes they owe in the year of discharge in order to account for previously claimed education-related credits and deductions.[45] For example, a borrower who had deducted student loan interest will not be required to pay back the deduction's benefit by increasing his or her taxes by the amount of the benefit once the loan is discharged.

The revenue procedure does not address the tax treatment of former CCI students whose private education loans were forgiven. As such, it appears these students may be subject to having the amount of the discharged loan included as part of their gross income unless they qualify for a statutory or common law exemption. For example, the forgiven debt would not be taxable for any students who were insolvent[46] (i.e., their liabilities exceeded the fair market value of their assets immediately prior to discharge).[47] Another legal theory under which these borrowers might be able to avoid taxation is the disputed debt (or contested liability) doctrine, which provides that a discharged debt is not considered income for federal tax purposes if the loan was based on fraud or misrepresentation.[48] In order to exclude a discharged loan from income under a statutory or common law exemption, a borrower would need to determine that he or she qualified for the exclusion based on his or her individual circumstances and be able to show that the determination was correct if the IRS were to contest it.

Other Types of Federal Education Benefits[49]

Is there any relief for former CCI students who received Pell Grants?

There are no statutory or regulatory provisions that provide relief to students who used Pell Grants to attend an institution of higher education (IHE) that closed. Additionally, there are no provisions to restore a portion of a student's eligibility toward the Pell lifetime eligibility limit of 12 full-time semesters (or the equivalent). It appears unlikely that students who used Pell Grants to attend a CCI school will be able to have their Pell Grant eligibility restored.

[43] Borrowers of Federal Family Education Loans, Direct Loans, and Perkins Loans who borrowed such loans to attend any IHE and whose loans are discharged due to school closure generally will have the amount of the discharged loans excluded from income tax, so long as they meet the general closed school discharge criteria described earlier in this report (e.g., stopped attending the school within 120 days of the school's closing date). HEA §§ 437(c)(4), 464(g)(4), and 455(a)(1).

[44] See Rev. Proc. 2015-57 (citing to 20 U.S.C. §§1087ee(a)(5), 1087(c)(4), 1087dd(g)(4), 1087e(a)(1)).

[45] See 26 U.S.C. §§25A (Hope, Lifetime Learning, and American Opportunity credits), 221 (deduction for student loan interest), 222 (deduction for qualified tuition and related expenses). For more information on these provisions, see CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*, by Margot L. Crandall-Hollick.

[46] See IRC §108(a)(1)(A) and (B). The amount of cancelled debt income that would be excluded is limited to the amount by which the borrower is insolvent.

[47] See IRC §108(a)(3).

[48] See, e.g., Zarin v. Comm'r, 916 F.2d 110, 115 (3rd Cir. 1990); Preslar v. Comm'r, 167 F.3d 1323, 1329 (10th Cir. 1999). See also Rev. Proc. 2015-57 (alluding to the doctrine in the context of federal student loan borrowers).

[49] This section was prepared by Cassandria Dortch.

Is there any relief for former CCI students who receive GI Bill benefits?

There are no statutory or regulatory provisions that provide relief to students who used GI Bill educational assistance benefits to attend an IHE that closed. Additionally, there are no provisions to restore a portion of a student's GI Bill entitlement, which is typically equal to 36 months (or the equivalent for part-time educational assistance) of enrollment. The Department of Veterans Affairs has indicated that "no debts will be created against students because of the school closure."[50] In other words, students will not have to repay benefits received for periods of enrollment that did not occur as a result of the school's closure. Thus, it appears unlikely that students who used GI Bill educational assistance benefits to attend a CCI school will be able to have their entitlement restored for the amount used to attend a CCI school; however, they will not be responsible for repaying GI Bill benefits received and used to attend a CCI school.

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[50] U.S. Department of Veterans Affairs, *Corinthian College Students—What You Should Know*, April 30, 2015, available at http://www.benefits.va.gov/gibill/.