

United States Senate

WASHINGTON, DC 20510

March 4, 2019

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F St. NE, Washington DC 20002

Dear Chairman Clayton:

We write to seek an explanation for the U.S. Securities and Exchange Commission's (SEC) weak settlement with former top Corinthian Colleges, Inc. ("Corinthian") executives who materially misled the public and investors about the financial status of the for-profit college in the months leading up to its May 2015 collapse.

The SEC settlement reveals that Corinthian, led by Jack Massimino, its then-Chief Executive Officer, and Robert Owen, its then-Chief Financial Officer, was caught by the Education Department in August 2013 using "questionable accounting," resulting in a "substantial risk for Corinthian's continued access to federal student loan funding." The settlement further reveals that these findings resulted in "severe financial and regulatory risks which [Corinthian] did not properly disclose" to the public or to investors.¹

Less than a year later, the Education Department imposed modest financial restrictions on Corinthian's access to federal student aid funding due to the company's ongoing failure to meet federal reporting requirements. These modest restrictions had a massive impact on Corinthian's viability due to the company's extreme dependence on federal funds. In 2015, Corinthian – amid ongoing questions from the Education Department and facing fraud charges from federal and state regulators – collapsed.²

The collapse of Corinthian was – and still is – the largest collapse of an institution of higher education in American history. It damaged shareholders, cost taxpayers tens of millions of dollars, and left tens of thousands of Corinthian students with useless college credits and no clear path to continue their education. Scores of former Corinthian students were left on the hook for millions in fraudulent debt for worthless degrees – many of whom are *still* being pursued in debt collections by the Education Department. This outcome was an utterly preventable tragedy for tens of thousands of American families that continues to affect their lives.

¹ Securities' and Exchange Commission vs. Jack D. Massimino and Robert C. Owen, Feb. 25, 2019, <https://www.sec.gov/litigation/complaints/2019/comp24410.pdf>.

² Letter from Sen. Elizabeth Warren to the Education Secretary John B. King, Jr., Sep. 29, 2016, https://www.warren.senate.gov/files/documents/2016-9-29_Letter_to_ED_re_Corinthian_data.pdf

Despite the years of mismanagement at Corinthian, and the financial hardship Corinthian imposed on thousands of students when the college collapsed, Mr. Massimino and Mr. Owen received multi-million dollar compensation packages from the company. In the three full years prior to the being caught by the Education Department using “questionable accounting,” Mr. Massimino received compensation valued up to \$9.6 million as head of Corinthian; Mr. Owen received a compensation package worth up to \$2.3 million.³ Their misleading of investors and the public about the company’s “severe financial and regulatory risk” allowed Corinthian stock to maintain artificially high share prices, driving up the executives’ stock compensation. In fact, a substantial portion of their compensation payments was in the form of incentive compensation – which may have been dependent upon the questionable accounting practices that they failed to disclose to the public and to investors. To add insult to injury, Mr. Massimino and other top leaders were, after the collapse, shielded from any legal responsibility for the bankruptcy thanks to a \$12 million payout from Corinthian’s insurance policies to the company’s creditors.⁴

Last week, the SEC released a settlement with Mr. Massimino and Mr. Owen. It found that both men “helped cause” the Corinthian deception and “knew facts that should have led each of them to take steps to ensure that Corinthian’s disclosures accurately described the regulatory risk,” but “instead each signed a disclosure that failed to do so.”⁵ The SEC found that Mr. Massimino violated Section 17(a)(3) of the Securities Act, engaging in fraudulent practices, and that Mr. Massimino and Mr. Owen both violated Section 13(a) of the Act, which requires issuers to file accurate reports with the SEC.⁶ The SEC also fined Mr. Massimino and Mr. Owen for these violations.

This settlement, however, was shocking in its failure to appropriately hold these executives accountable. The SEC only fined Mr. Massimino \$80,000 and only fined Mr. Owen \$20,000, which is little more than many Corinthian students would have borrowed to attend. Neither admitted wrongdoing as part of the settlements, and the SEC did not bar either man from being an officer or director of another publicly traded company or for-profit college. It is just plain wrong for the SEC to do so little to penalize Mr. Massimino and Mr. Owen – who were paid millions of dollars while Corinthian teetered towards bankruptcy – while many Corinthian students are still being pursued for debt worth more than the SEC’s fines.⁷

This weak settlement by the SEC is an insult to the victims of Corinthian’s fraud. It neither holds executives truly accountable for their misdeeds nor deters future bad behavior. It represents a loss for taxpayers, investors, and the thousands of students that Corinthian

³ Corinthian Colleges, Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934, October 3, 2013, <https://www.sec.gov/Archives/edgar/data/1066134/000104746913009493/a2216867zdef14a.htm>, at 35.

⁴ Wall Street Journal, “Corinthian Former Leaders Settle With Bankruptcy Trustee”, Sep. 6, 2017, <https://www.wsj.com/articles/corinthian-former-leaders-settle-with-bankruptcy-trustee-1504730371>

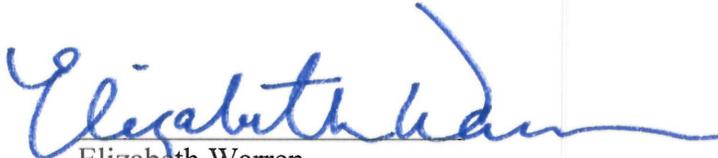
⁵ Securities’ and Exchange Commission vs. Jack D. Massimino and Robert C. Owen, Feb. 25, 2019, <https://www.sec.gov/litigation/complaints/2019/comp24410.pdf>, at 4.

⁶ 15 U.S. Code § 78m

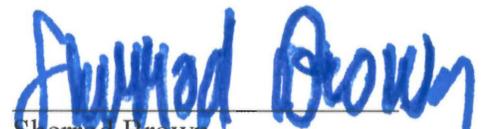
⁷ USA Today, “Student Loans: Court fight looms over debts of former Corinthian College students”, April 29, 2018, <https://www.usatoday.com/story/money/2018/04/29/student-loans-corinthian-colleges-court-fight-debts/557436002/>.

defrauded. We request an explanation of the rationale for the settlement and a briefing on this matter as rapidly as possible.

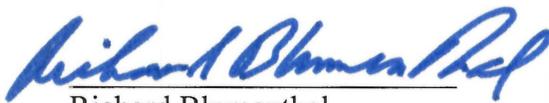
Sincerely,



Elizabeth Warren
United States Senator



Sherrod Brown
Ranking Member, Committee on
Banking, Housing, and Urban
Affairs



Richard Blumenthal
United States Senator



Richard J. Durbin
United States Senator