Online College Loophole Threatens California Consumers

Problem: California consumer protections do not apply to some online “colleges.”
Distance education is the fastest growing segment of higher education,\(^1\) but California law has not kept up. Out-of-state companies can enroll Californians in online education without complying with consumer protections for postsecondary students under California law, as long as the school has no physical presence in the state.\(^2\) This giant loophole leaves Californians vulnerable to predatory marketing, low-value programs, and fraud. Californians who enroll in distance education programs offered by out-of-state schools lack the following protections, among many others:

- Reimbursements for economic losses due to sudden school or program closures.
- 100% refund if they cancel before the first day of class.
- Private student loan refunds in the event they withdraw before 60% of the term is completed.
- Oversight and right to file complaints with the state agency that oversees private schools.

Problem: Online schools have a history of misleading marketing and poor outcomes.
A U.S. Senate investigation found that exclusively online students at for-profit institutions have lower retention rates, on average, than students who attend classes at physical locations.\(^3\) The largest distance education schools are owned and operated by the same for-profit school companies that have been the subject of multiple law enforcement investigations.\(^4\) Even schools with a physical presence in California can avoid California law by separately incorporating their distance education schools and locating the headquarters in other states.

Problem: Californians have already been hurt by the lack of protections.
California students who attended Corinthian College’s distance education schools, which were located in Arizona and Florida and closed in April 2015, are not eligible for reimbursement from the Student Tuition Recovery Fund. As a result, many of these students will continue to owe thousands in expensive private student loans, even though they did not receive the education they paid for. In addition, these students’ complaints cannot be handled by the state’s oversight agency.

Solution: Require online schools enrolling California students to abide by California consumer protections.
Californians who enroll in distance education programs offered by for-profit schools that lack an in-state physical presence deserve the same protections that students who attend online or in-class programs offered by schools with a California presence. It is unfair to leave them unprotected and unwise for California, which should do more to ensure that its citizens are able to access quality educations that will create a larger and more highly skilled workforce. The legislature should eliminate the online college loophole by deleting the language in Cal. Ed. Code § 94858 which limits applicability of the Private Postsecondary Act to institutions that have a physical presence in California.\(^5\)

---

\(^1\) Office of the Inspector General, Dep’t of Educ., “Title IV of the Higher Education Act Programs: Additional Safeguards are Needed to Help Mitigate the Risks That are Unique to the Distance Education Environment,” ED-OIG/A07L0001 at 4, 6 (Feb. 2014).


\(^3\) U.S. Senate, Health, Educ., Labor and Pensions Comm., For Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success, S. Rpt. 112-24 at 5 (July 30, 2012). See also, Adam Rust, “ ‘I Feel Like I Was Set Up To Fail’: Inside a For-Profit College Nightmare,” www.Salon.com (Jan. 25, 2014) (detailing story of California student who enrolled in online courses at Everest University Online (owned by Corinthian Colleges) and Art Institute of Pittsburg (owned by EDMC) who now owes over $6000 for her courses, but didn’t earn a single credit hour).


\(^5\) Cal. Ed. Code § 94858: “Private postsecondary educational institution” means a private entity with a physical presence in this state that offers postsecondary education to the public in or residents of California for an institutional charge.