

Enforcement Alert from Hudson Cook; CFPB Imposes Ban from Consumer Lending Activities and \$164,000 Penalty on For-Profit Vocational School and Its Founder for Hiding Loan Costs from Students

April 19, 2024 | [Julia K. Whitelock](#) and [Erik Kosa](#)

HIGHLIGHTS:

- The school and its founder must pay civil penalties of \$100,000 and \$64,235, respectively.
- The school and its founder neither admitted nor denied the allegations but must rescind loans to certain students.
- The school is permanently banned from all consumer lending activities and the founder is banned for ten years.

CASE SUMMARY:

The CFPB entered into a consent order with a for-profit vocational school that offered coding programs using income-share agreements ("ISAs") as tuition financing options. Unlike conventional student loans, ISAs are products under which students defer their tuition payments by agreeing to pay the lender a predetermined share of their future income. Under most of the ISAs, students who earn more than \$50,000 post-graduation must pay the school 17 percent of their pre-tax income each month until they make 24 payments or hit a cap of \$30,000 in total payments, which was often \$10,000 more than the sticker price of tuition.

The Bureau found that the school and its founder engaged in deceptive practices in violation of the Consumer Financial Protection Act ("CFPA") by misleading students into believing the ISAs were not loans, did not create debt, had no finance charge, and were risk free. The school advertised on its website "No loans, no debt" and claimed students could "skip student debt" and "Graduate Risk-Free." In fact, the Bureau found that the ISAs had an average finance charge of \$4,000 and carried substantial risk in that a single missed payment triggered a default and the remainder of the \$30,000 cap coming due immediately.

The CFPB also found the school and its founder engaged in abusive practices in violation of the CFPA by representing to students that their interests were aligned in that respondents would only make money if students did. In fact, the respondents knew students were rarely placed into high-paying jobs and respondents pursued a business strategy of enrolling more students each month and placing less

than half of them into qualifying jobs.

Finally, the Bureau found that the school and its founder violated the Truth in Lending Act and Regulation Z by failing to disclose the amount financed, finance charge, and annual percentage rate of the ISAs, and violated the Holder Rule by failing to include a provision in its ISAs making any holder of the agreement subject to the legal claims that students could assert.

The school and its founder neither admitted nor denied the allegations. To resolve the matter, they agreed to rescind the ISAs of certain affected consumers, instruct their servicers to cap repayments at the upfront cost of tuition, and return finance charges made by those consumers after the order's effective date. The respondents also agreed to offer currently enrolled students the option to withdraw from the program and rescind their ISAs. Further, the school will pay a civil penalty of \$100,000 and the founder a civil penalty of \$64,235. The order permanently bans the school from all consumer-lending activities and bans the founder from such activities for ten years.

RESOURCES:

You can review all of the relevant court filings and press releases at the [CFPB's Enforcement page](#).

- [Consent Order](#)
- [Stipulation](#)
- [CFPB Press Release](#)

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