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Were They Just Paper Airplanes?



Matt Strohane for The New York Times

Edward Roe took out loans to study at the Tab Express flight school, but it abruptly closed.
 By JONATHAN D. GLATER
 Published: July 4, 2009

LOOKING back, students of the Tab Express flight school could see the danger signs.

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Matt Strohane for The New York Times
The DeLand Municipal Airport in Florida.



Matt Strohane for The New York Times
The Tab Express school used this building at the airport for flight instruction.

They remember the long waits to use airplanes and flight simulators, the difficulty of getting a tuition refund if a would-be pilot withdrew from the program, and the two weeks when the school, in DeLand, Fla., north of Orlando, shut down with no warning.

Most worrying was the airline that the school's owners kept trying to set up. Every time a federal inspector came to observe one of Tab's pilots in action, in one of the nascent airline's planes, some piece of equipment would break, recalled Edward C. Roe, a former Tab student.

"They got down over the ocean and they couldn't fly back because one of the pressure gauges didn't work," forcing an unscheduled landing, he said. "That didn't seem normal to me."

The school, which operated from DeLand Municipal Airport and had about 100 students at its peak, collapsed in June 2005. Mr. Roe, who lives in Kissimmee, Fla., found himself without a commercial pilot's license and owing KeyBank about \$122,000 in student loans. Stress from the debt, he says, ruined his marriage. Instead of flying planes, he works for CSX, inspecting railroad tracks.

Mr. Roe and about 50 other students pooled their resources to hire a lawyer, then accused the bank of conspiring with the school to fleece them. Their story, however, is more than a saga of taking on a big bank. It is yet another cautionary tale about the dangers of easy credit. Like homebuyers who took advantage of mortgages with risky terms to buy real estate that turned out to be overpriced, some students borrowed more than they should have for the education they received.

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And, like many homeowners facing foreclosure, the Tab students say that they were victims of unscrupulous business people and a lender all too willing to look the other way.

The students' experience also sheds light on the risks of borrowing large sums to pursue an education in one part of the trade school world: institutions that operate outside of federal loan programs. If a school — say, a small, privately operated beauty school, a computer training school or a flight school — is not in those programs and collapses, students who took out loans to pay tuition may be left with poor job prospects and big debts.

In Tab's case, the collapse set off a small avalanche of lawsuits contending fraud, and criminal investigations by the state attorney general, the [Federal Bureau of Investigation](#) and possibly other agencies. These investigations have ended, and no criminal charges were filed. The owners of Tab sued KeyCorp, which is based in Cleveland and is the parent of KeyBank. KeyBank sued Tab, and the students sued both KeyBank and Tab.

Lawyers for KeyBank, which currently faces another [lawsuit brought by students of a failed flight school in Nevada](#), contended in court filings that it had done nothing wrong and was itself a victim of fraud. Millions of dollars borrowed by students and paid directly to the school are still missing, according to the bank, which denies any liability.

Robert A. Adamo, one of Tab's owners, said that loan money was not improperly used and that KeyBank officials knew how the school operated. He blames the bank for the school's collapse, saying that when KeyBank stopped making loans to students, Tab had to close.

"We're 100 percent sure we never did anything wrong," he said. "We followed the guidelines that were given to us at the time by KeyBank."

No one knows how much students borrow over all to attend these lightly regulated schools; KeyBank no longer makes loans to students who attend schools outside federal programs. The federal Education Department says it has next to no authority over private loans, which are not guaranteed by the government and whose terms vary, like those of other consumer loans.

The Tab students learned a lot about these private student loans, which have one thing in common with the federal variety: They are very difficult to get rid of, either through bankruptcy or through the kind of legal battle the students waged.

"It's a huge problem," said Deanne Loonin, director of the student loan borrower assistance project at the [National Consumer Law Center](#) in Boston. Many of her clients have ended up in the same situation, with few options, she said.

IN a deposition on Feb. 21, 2006, after the school's collapse, Mr. Adamo said that American Eagle and Colgan Air, two regional airlines, had agreed to hire Tab graduates.

The school, which opened in 2001, also made an unusual pledge, several students said: Graduates of the pilot training program could work for Tab's own airline for a few years and have their loans forgiven. It is not clear if the airline ever operated.

"I actually thought that was going to happen," Mr. Roe said, adding that there were even planes at the airfield that were painted with a Tab logo.

But Mr. Roe said the first danger sign appeared even before he started classes. He said KeyBank's payment of his student loan money to Tab reached the school even before he received the letter confirming he had been accepted into the program. That is unusual, and Mr. Roe said he thought it was one reason the bank agreed to settle the lawsuit.

Flight school students thought that Tab had a relationship with KeyBank. There was a link on the school's Web page to a KeyBank student loan application site, and some Tab brochures carried KeyBank's logo on them.

That was reassuring, several students said, because they figured that a big, national bank would make loans to them only if they attended a school it deemed worthwhile.

These were sizable loans. Lee Palin, another Tab student, took out a loan in 2004 for \$99,000 to cover tuition, which could be as much as \$99,999 for up to 11 months of education and time spent flying — a very expensive piece of the program — and then another loan for about \$20,000 to cover living expenses. Such debts can prove crushing to pilots just starting out; some may earn \$20,000 a year or less.



Mr. Palin's wife, Stephanie, who worked at the time as a financial specialist at Bank of America, said that the size of the loan made her stomach turn and that she was puzzled that the loan was available.

"It was all off my income, and at the time I was making \$28,000 a year," Ms. Palin said. "If I'd been looking over that application, I wouldn't have approved myself." But the loan documents were in order, she said. She and her husband signed.

Mr. Palin, who found the flight school through a magazine advertisement, said he tried to verify that Tab's training program was a real and a worthwhile investment. He was reassured by his visit to the airfield.

An impressive array of aircraft was available for training, he recalled. "It looked really good as you walked up to the ramp and you saw all these airplanes," he said, rattling off the Beechcraft and other models he saw. "They had two Westwind jets parked next to the gate, two 1900s, and a big long line of King Airliners."

Now he says he is convinced that what he saw was a Potemkin airfield, set up just to impress potential students. Only four or five planes could actually fly, he said.

Today, Tab's airport facilities in DeLand are used by the county sheriff.

MR. PALIN, like Mr. Roe and other students at the school, never saw the money he borrowed because it was transferred directly to Tab in a lump sum. Lawyers for KeyBank said that was industry practice in the past. Bank officials told lawyers for the students that they did not track what happened to the money afterward.

In court documents, the bank revealed that it had paid more than \$1 million in loans to the school to cover tuition for people who the bank later learned had never enrolled. KeyBank's lawyers said the bank had even lent money for tuition to the school's owners, including Mr. Adamo.

When questioned by lawyers for Tab students, Beth Rosenberg, the president of Key Bank Education Resources, a unit of KeyBank, said the bank did not look into a school's financial condition or verify that students taking out its loans were attending accredited schools. Ms. Rosenberg conceded that it did not matter to the bank what school a student attended, so long as it existed and the student qualified for the loan.

Asked why KeyBank did not do more background investigation into schools, Ms. Rosenberg responded, "I don't recall."

Peter N. Tamposi, one of the lawyers who represented KeyBank, said in an interview in June that as soon as the bank learned of problems at Tab, it stopped lending to students there.

"What you had, basically, from what we could tell, was a Ponzi scheme," Mr. Tamposi said. "The school could only survive by getting new loans from KeyBank or another source."

In his deposition, Mr. Adamo said that Tab had provided detailed financial information to the bank and that the school had had a formal agreement with KeyBank. No other bank would provide the kinds of loans that KeyBank offered to Tab students, Mr. Adamo said. "They were kind of a creative student loan," he said.

And when KeyBank stopped making the loans, the school almost instantly shut down. That was in June 2005.

After the school closed, a few students met and decided to retain a lawyer. It took several months to find one willing to take the case, because without the prospect of a big settlement — students primarily wanted their loans forgiven — there was little possibility of a contingent fee, so many lawyers weren't interested.

The lawyer who heard them out, Kevin P. Kelly at GrayRobinson in Orlando, told the students that at least 25 of them would have to pool their resources to be able to afford his firm's services. Keith Bergen of Mesa, Ariz., one of the students and the lead plaintiff in the case, came back with more than double that number.

Waging their legal war cost about \$750,000. But after three years and on the eve of trial, the bank agreed last fall to forgive their loans — something that rarely happens, consumer lawyers say. KeyBank also agreed to pay nearly \$270,000 of the students' legal fees, but paid no money damages.

"While the evidence demonstrated that many of the students received considerable training and flight hours at TAB Express in exchange for their tuition, the borrowers' ultimate inability to repay the loans drove the resolution of the lawsuit," the bank said in a statement.

The bank separately won a \$2 million judgment against the owners of Tab, but has not been able to collect any of the money.

Mr. Adamo said the bank won that judgment because Tab had pledged to buy the loans of students who defaulted on payments. "Once the school went under, there was a bunch of people that defaulted," he said, adding, "If we did something wrong, they would go after a lot more than \$2 million."

The Tab students tried to interest federal and local law enforcement in the case. The Florida attorney general's office ended its investigation when it became apparent that federal agencies, including the Federal Bureau of Investigation, were more likely to have jurisdiction.

"We had an investigation," confirmed Jeff Westscott, an F.B.I. special agent and spokesman in the Jacksonville, Fla., field office. "It's been closed."

SOME students involved in the lawsuit completed training elsewhere and found jobs. Mr. Palin said he now makes about \$18,000 a year as a pilot for Gulfstream International Airlines, which flies primarily within Florida and the Bahamas.

Mr. Palin hopes to rise in the ranks and eventually land a job with a larger airline. "Tab Express is not going to take away a dream," he said.

A version of this article appeared in print on July 5, 2009, on page BU1 of the New York edition.

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