ITT

Summary: 2012 U.S. Senate Committee Findings + Updates through 2016

Overview

- ITT Educational Services Corporation, a publicly-traded company, is one of the largest for-profit companies
- It offers both 2-year (85% of students) and 4-year degrees in programs such as computer network systems, computer and electronics engineering technology, computer drafting and design, and nursing
- It operates 145 campuses in 35 states under the brand names ITT Tech (99% of students) and Daniel Webster College along with an online division
- Enrollment nearly quadrupled from 2000 to 2010, totaling about 88,000, and revenue more than doubled between 2006 and 2010 to $1.6 billion
- Faced numerous state Attorneys General investigations and a Consumer Financial Protection Bureau lawsuit in 2014

Tuition

- Associate ($44,895) and Bachelor's ($93,624) degrees in Business Administration at ITT's Indianapolis campus are more than 4 times ($9,385) and 2 times ($43,528) as expensive, respectively, as nearby public community and 4 year colleges
- Moreover, it charges one-third more than other nearby for-profit colleges
- Annual tuition increases of at least 5 percent from 1996 through 2010
- Created retroactive scholarship program that reduced tuition 20% for those graduating from an Associate program rather than an across to board tution cut for all students, which would have included students not expected to graduate
- Tuition is so high that the company created its own loan program to enable students to borrow money in excess of federal lending limits; these private loans contributed to about a 10% drop in the schools dependence on federal student aid between 2009 and 2010

Federal Revenue

- 65.8% ($1.1 billion) of its revenue was derived from federal student aid plus military and veterans educational benefits in 2010

Expenditure Priorities

- Allocated 37.1% of its revenue ($489 million) for profit, more than any other major for-profit college, and 19.1% ($252 million) of revenue on marketing and recruiting in 2009, close to the sector-wide average
- Spent $2,839 per student on instruction in 2009, compared to $3,156 per student on marketing and $6,127 per student on profit
- Paid CEO $7.6 million in 2009—22 times more than the University of Indiana's president

Recruiting Tactics

- Recruiters taught to "dig in and get to the pain of each and every prospective student" using aggressive tactics that prey on their emotions
- Tactics are on display in a "Pain Funnel" graphic that spells out 4 levels of pain and corresponding questions for recruiters to ask
- Training manuals teach recruiters to mislead prospective students about the cost of attendance
- Students complained about misleading information provided by recruiters on transferability of credits and costs, including a veteran with PTSD who was falsly promised he wouldn't incur any loan debt
- While it employed 1 recruiter for every 34 students, each career counselor was responsible for 204 students and each student services staffer was responsible for 807 students; students complained about the lack of career services help in finding a job or even preparing a resume
- Instructors at one campus said that 90% of the low income students recruited could not perform basic math

Academic Quality and Student Outcomes

- Spent $2,839 per student annually on instruction compared to $11,856 at Indiana University
- 2010 withdrawal rate of 52% for students who enrolled in 2008 mirrored the rate at other schools surveyed; those who withrew were enrolled a median of 3 months
- Gradual increase in defaults for students entering repayment in 2005 and 2008, from 21.1% to 26.3%, the latter being the sixth highest of the 30 schools surveyed
- Contracted with vendor to reduce its default rate by enrouraging potential defaulters to enter deferment or forbearance, during which some loans continue to accrue interest
- Government Accountability Office undercover investigators were given top grades despite failing to address key components of assignments
- Students report that faculty are often unqualified, underprepared, or even absent altogether
- 63% of faculty were part-time in 2010, lower than the 80% average at 30 schools surveyed
- In 2005, ITT paid $730,000 to settle a lawsuit with the State of California for inflating students' grade point averages so that they could qualify for more state financial aid from California

2015 Update

- **State Atttorneys General Investigation.** ITT Educational Services, Inc. received subpoenas in January 2014 from 12 state Attorneys General under the authority of each state's consumer protection statutes related to the school's marketing and advertising, recruitment, financial aid, academic advising, career services, admissions, programs, licensure exam pass rates, accreditation, student retention, graduation rates and job placement rates, as well as many other aspects of the Company's business.
- **Civil complaint filed by New Mexico Attorney General.** The February 2014 complaint alleged that ITT's nursing program lacked accreditation, students were misled about the transferability of credits earned, and the progam steered students into high-interest private loans
- **Security and Exchange Commission (SEC) subpoena.** In February 2013, the SEC subpoenaed records related to ITT's private education loan program, which was available to students to cover charges when financial aid from federal, state, and other sources was insufficient.
- **Consumer Financial Protection Bureau (CFPB) Lawsuit.** In February 2014, "the CFPB filed a lawsuit against ITT alleging that it subjected consumers to undue influence or coerced them into taking out ITT private loans through a variety of unfair acts and practices designed to interfere with the consumers' ability to make informed, uncoerced choices." According to the lawsuit, ITT used its financial aid staff to rush students through an automated application process without affording them a fair opportunity to understand the loan obligations involved. In some cases, students did not even know they had a private student loan until they started getting collection calls. The loans were high-cost. For borrowers with credit scores under 600, for example, the costs of the private student loans included 10 percent origination fees and interest rates as high as 16.25 percent.
- According to a July 2014 Senate HELP committee report, 57% of ITT programs would fail the Department of Education's proposed Gainful Employment rule
- The same report found that, from 2009 through 2013, ITT's revenue from the Post-9/11 GI Bill was $502 million, the 2nd highest of any for-profit school
- On August 25, 2016, the Department of Education notified ITT that it will no longer be allowed to participate in Title IV except under the following conditions:
    - **Enrollment restrictions:** ITT may no longer enroll new students who rely on federal financial aid dollars for educational expenses;
    - **Disclosures to Students:** ITT must inform current students that its accreditor has found that the institution is not in compliance, and is unlikely to become in compliance with its Accreditation Criteria;

Summary of findings from a report by the Senate Health, Education, Labor and Pensions (HELP) Committee: *For-Profit Education: The Failure to Safeguard the Federal Investment and Ensure Student Success* (July 30, 2012). Find the full chapter on ITT at: http://www.help.senate.gov/imo/media/for_profit_report/PartII/ITT.pdf

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- **Compensation and Payment Limitations:** ITT is prohibited from awarding raises, paying bonuses or making retention or severance payments to its executives or to paying special dividends or out of the ordinary expenditures without department approval;
- **Notification of Financial Events requirements:** ITT must inform the Department of any significant financial or oversight events including violations of existing loan agreements or extraordinary financial losses within ten days of such events; and
- **Title IV payment method requirements**: ITT is required to use its own funds to initially cover Title IV aid disbursements for current students. The Department will reimburse funds to ITT *after* aid is disbursed to students.
- **Surety bond**: Within 30 days, ITT is required to increase its existing surety from $94,353,980 to $247, 292,364, or 40 percent of all Title IV aid the school received in 2015 payable in full. Surety funds are held by the Department in a Federal Holding Account and are used to reimburse the Department for liabilities related to the investigations, including student refunds, student loan cancellations and other expenses if ITT closes campuses.
- **Teach-out**: ITT is required to develop teach-out agreements with other colleges that provide students with opportunities to complete their studies. Teach-out agreements are developed in the event an institution, or an institutional location, ceases operations before all enrolled students have completed their program of study.

These actions follow determinations made by the schools accreditor, the Accrediting Council for Independent Colleges and Schools (ACiCS), that ITT is unlikely to come into compliance with its accreditation criteria, including: (1) Minimal eligibility requirements for compliance with all applicable laws and regulations; (2) Federal and state student financial aid administration requirements; (3) Financial stability, including having adequate revenues and assets to meet its responsibilities; (4) Administrative capacity, including overall management and record-keeping; (5) ACICS admissions and recruitment standards; (6) Requirements for student achievement, as measured by retention, placement, and licensure passage rate; and (7) Institutional integrity, as manifest in the efficiency and effectiveness of its overall administration of the institution.

- On September 6, 2016, ITT announced that it was shutting down immediately.