

Downfall of ITT Technical Institutes Was a Long Time in the Making

By **Patricia Cohen**

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Doors were bolted shut and parking lots emptied at ITT Technical Institutes around the country this week after the chain of for-profit colleges announced it was closing for good.

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At some campuses, though, this was not the first time students and employees found themselves locked out. More than a decade ago, in 2004, federal agents, search warrants in hand, swooped into the company's offices in eight states, closing schools briefly as they hunted for evidence of fraud related to student recruitment, enrollment, dropout rates, grade inflation, loans, and reported job placements and salaries.

The collapse of ITT, one of the nation's largest for-profit educational chains, may have seemed sudden, coming less than two weeks after the Education Department — citing financial instability and the likely loss of accreditation — barred the parent company from enrolling new students using federal funds. But the unraveling stretches further back, to a time when ITT was a Wall Street darling, raking in record profits.

“It has been a long time coming,” said Carrie Wofford, president of the nonprofit Veterans Education Success and the former senior counsel to a Senate committee investigating for-profit colleges. There was “a lack of fair play that was particularly

true at ITT and some others.”

Founded at the end of World War II as part of the original International Telephone & Telegraph, the career schools operation split off into an independent, publicly traded corporation in the mid-1990s. The switch came as liberals and conservatives began a wholehearted embrace of privatization on the theory that professionally managed, profit-oriented businesses could do a better job of delivering public services than nonprofits or the government.

Investors, thinking that the for-profit education sector was the next big thing, swarmed.

With transformations in the economy, more and more working adults were turning to training programs where factory hands could learn to use computers or home health care aides could earn a nursing degree. Providers like ITT Technical Institutes held out the promise, not just of a good job for eager young prospects, but of steady growth in enrollment and revenue as well.

From 2000 to 2003, the sector outran every other on Wall Street. Publicly traded post-secondary-education shares climbed 460 percent, according to one analysis, compared with a 24 percent loss for the Standard & Poor’s 500-stock index. Some mutual fund managers boasted that the schools’ owner, ITT, had been their most profitable stock.

Yet even as business was booming, troubling accusations of abusive practices in the industry like the ones that resulted in the 2004 federal raid bubbled up. That investigation, brought initially by the United States attorney’s office in Houston, was ultimately closed, but suspicions continued to trail ITT and other for-profit giants.

The next year, ITT agreed to a \$725,000 settlement with California after employees revealed that the company inflated grades to qualify students for state financial aid. Several investors, convinced company officials had lied to them, filed securities fraud lawsuits.

A major grievance was that the industry was overselling programs that left enrollees with deep debt and degrees that had little value in the job market. Students weren't the only potential victims; so were taxpayers.

The company said it was more concerned with the present than the past.

“We're involved in the complicated and heart-wrenching process of closing our academic institutions after approximately 50 years of outstanding service to students and employers who hire them,” said Nicole Elam, a spokeswoman for ITT Technical Institutes. “When students have been abruptly forced into the streets and employees' livelihood ripped from them,” she added, “regurgitating unproven allegations as a means to justify this horrific end is shameless.”

For-profit colleges were a magnet for billions of dollars in federal student loans and grants to low-income students. In 2010, they gobbled up more than \$32 billion, a quarter of all federal financial aid, nearly double their share less than a decade earlier, the Senate committee inquiry found. Hundreds of millions more flowed in from the Pentagon and veterans' programs through the G.I. Bill.

For ITT, the total haul in federal dollars that year equaled \$1.1 billion. Absent that steady stream of public funds, these privately managed businesses would collapse.



Rodney Lipscomb, former dean of academic affairs at an ITT campus, said he was disturbed by aggressive recruitment. Cooper Neill for The New York Times

With Wall Street demanding steady growth, the pressure on the company's managers was relentless. The chain was adding eight to 10 new campuses a year, according to the Senate committee. Former employees said recruiters pushed to enroll more and more students — regardless of their preparation, chances of graduating or ability to repay their loans — even as the company pared instructional costs and raised tuition to increase profits.

Although the investigations temporarily depressed ITT's stock, within a few years, the company was soaring to new heights thanks to an otherwise disastrous development: the Great Recession.

As employers shed workers, many more people returned to school, taking on enormous debts in the hope of bolstering their credentials and skills and improving their chances on the job market.

Profits took off, but so did disenchantment with the industry. Aggrieved students, graduates who found their degrees of little value, even insiders who became whistleblowers turned to online websites and watchdog groups. Many filed complaints with state prosecutors and regulators, the Education Department and lawmakers.

They reported deceptive marketing; strong-arm recruitment tactics; misleading information about costs, courses, graduation and job placement rates; inflated enrollment numbers; bait-and-switch schemes; subpar instruction; and more.

Ms. Wofford of Veterans Education Success said that every time the government tried to clamp down on an abuse, some for-profit colleges would come up with a scheme to circumvent the rule, like a private loan program set up by ITT to keep the pipeline of federal funds flowing.

“There’s a perniciousness that’s disturbing,” Ms. Wofford said.

Some employees tried to change company practices. Rodney Lipscomb, the former dean of academic affairs at an ITT campus in Tallahassee, Fla., said he was on the job six months, “when I really started to say something’s not right.”

Hired in the spring of 2011, he was disturbed by the aggressive recruitment, something he had never seen during his two decades at public educational institutions. Former students returned to the school, stunned by letters demanding payment for high-interest loans they knew nothing about. Worst of all, he said, staff members would then persuade those same students to re-enroll in unrelated programs and take on even more debt as a way of deferring the loans that were already due.

He started filing reports, detailing his concerns.

“I really believed at that time, I could fix it if I got to the right folks,” said Mr. Lipscomb, who now works for a community college in Texas. “But the higher I reported up the chain, the worse the environment got for me.”

Finally he was told a lawyer from the company’s headquarters in Indiana and the district manager were coming to Florida to meet with him. “I was very happy,” he said. “I thought they were going to take action.”

Instead, Mr. Lipscomb said, they told him that if he continued to report his complaints, he would be fired.

In 2015, he was. He has since filed a whistle-blower suit against ITT Technical Institutes in federal court, accusing the company of defrauding the government of money and wrongful termination.

Beyond the spate of private lawsuits, the Consumer Financial Protection Bureau and the Justice Department, the Securities and Exchange Commission, and 19 states have either investigated or sued ITT. The Education Department actively monitored the company’s finances starting in 2014. But it was last month’s ban on enrolling new students with federal funds that delivered the death blow.

Now many current as well as former students have been left stranded.

“This has a huge impact on my life,” said Chris Blank, a 31-year-old former Marine who was studying electrical engineering at an ITT campus in California. “I relied on G.I. benefits. They are all basically wasted and I can’t get any of those back.”

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