

The Washington Post

Grade Point

Former students fight for a stake in ITT Educational Services bankruptcy

By [Danielle Douglas-Gabriel](#)

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Creditors, federal regulators, state attorneys general and jilted employees of ITT Educational Services have laid claim to the remaining assets of one of the nation's largest for-profit college operators in bankruptcy court. Absent from the line of those seeking redress, however, are the thousands of students who say they were defrauded by the chain. That is, until now.

A group of former students at ITT Technical Institutes on Tuesday filed a lawsuit against the parent company to ensure participation in bankruptcy proceedings. The group is asserting claims against the company of consumer protection violations and breach of contract, and asks for class-wide status to cover anyone who attended ITT Tech in the past 10 years. The group is also seeking an injunction to stop the collection of private loans administered by ITT, which ran an in-house lending program that is at the center of two federal lawsuits.

“There are a lot of people making claims on the estate, and it's really important to get students' experiences out there and that they're creditors of ITT as well,” said Eileen Connor, counsel for the students.

She estimates the students' claims at \$7.3 billion, roughly the amount of student loan revenue ITT Tech took in over the past 10

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years. Connor, who is also an attorney at the Project on Predatory Student Lending at Harvard Law School, said it was critical to file the lawsuit now because the claim deadline is at the end of the month, something she suspects few students know.

ITT filed for bankruptcy protection to liquidate its business in September, days after shutting down 137 campuses across the country and leaving 35,000 students and 8,000 employees in the lurch. The closure followed the Education Department's decision to curtail ITT's access to federal student aid because an accrediting body threatened to pull its accreditation amid mounting lawsuits and investigations.

Before ending its operations, ITT was being investigated by more than a dozen state attorneys general and two federal agencies for fraud, deceptive marketing or steering students into predatory loans. The Consumer Financial Protection Bureau, for instance, said ITT provided zero-interest loans to students but failed to tell them that they would be kicked out of school if they didn't repay in a year. When students could not pay, ITT allegedly forced them to take out high-interest loans to repay the first ones.

Tuesday's complaint included 108 pages of attestations from 521 former ITT students, many of whom accused school administrators of misleading them about the nature and terms of the in-house loans. In one instance, a former student recalls an adviser pushing the in-house loan as comparable to federal student loans and telling her she would not qualify for anything else. Instead of the 6.8 percent interest rate promised, the student wound up paying 14.75 percent in interest on the debt.

All of the uncollected student debt sponsored by ITT is considered

one of its major assets and has become a point of contention in the bankruptcy proceedings. Deborah Caruso, the trustee appointed to dismantle the company, has tried unsuccessfully to block the CFPB case, which could result in restitution for students, if not the outright cancellation of the debt. Caruso did not return requests for comment on the students' lawsuit.

“It’s almost the elephant in the room in this bankruptcy that there are potential liabilities of ITT toward students,” Connor said. “The students need to be recognized so they can have a voice in whatever negotiations might be happening between ITT and other creditors.”

The students are also asking for a legal finding from the bankruptcy court that ITT engaged in widespread consumer protection violations to create a clearer path to federal debt cancellation. Despite filing “borrower defense to repayment” claims — a statute that discharges government loans when schools use deceptive tactics to persuade people to borrow money for college — ITT students say they have yet to receive relief. ITT Tech students have submitted more than 1,500 claims, according to the Debt Collective, an offshoot of the Occupy Wall Street movement working with former students.

Jorge Villalba, one of four plaintiffs in the case, submitted a claim to the Education Department a year ago, but said he has yet to receive a response. He graduated with \$70,000 in federal and private student loans from ITT Tech in California, where he earned a bachelor’s degree in digital entertainment. Villalba, 36, said it was “nearly impossible” to get a job after leaving ITT Tech because he never learned any of the skills needed to be an animator. The job he eventually landed paid less than what he was earning before entering ITT Tech, Villalba said.

“Every time I applied for a position, they wanted two years of experience or a portfolio showing your animation and design work. I didn’t do any of those things in school. I applied for everything, even internships and never heard back from anyone,” he said. “I got a degree that is worthless. I feel ripped off.”

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Danielle Douglas-Gabriel covers the economics of education, writing about the financial lives of students, from when they take out student debt through their experiences in the job market. Before that, she wrote about the banking industry. [Follow](#) 