ITT Educational Services

Introduction

ITT Educational Services Corporation, Incorporated ("ITT") is one of the largest for-profit education companies, and offers primarily 2-year and some 4-year degrees in a number of subjects. Like many others in the sector, in recent years ITT has experienced significant growth in student enrollment, Federal funds collected, and profit realized. While the company student withdrawal rates are lower than many large publicly traded for-profit education companies, ITT's student loan default rates are higher than most. Additionally, ITT offers some of the most expensive programs of any for-profit college, forcing many students to borrow the maximum available Federal aid and to take on additional private debt.

Company Profile

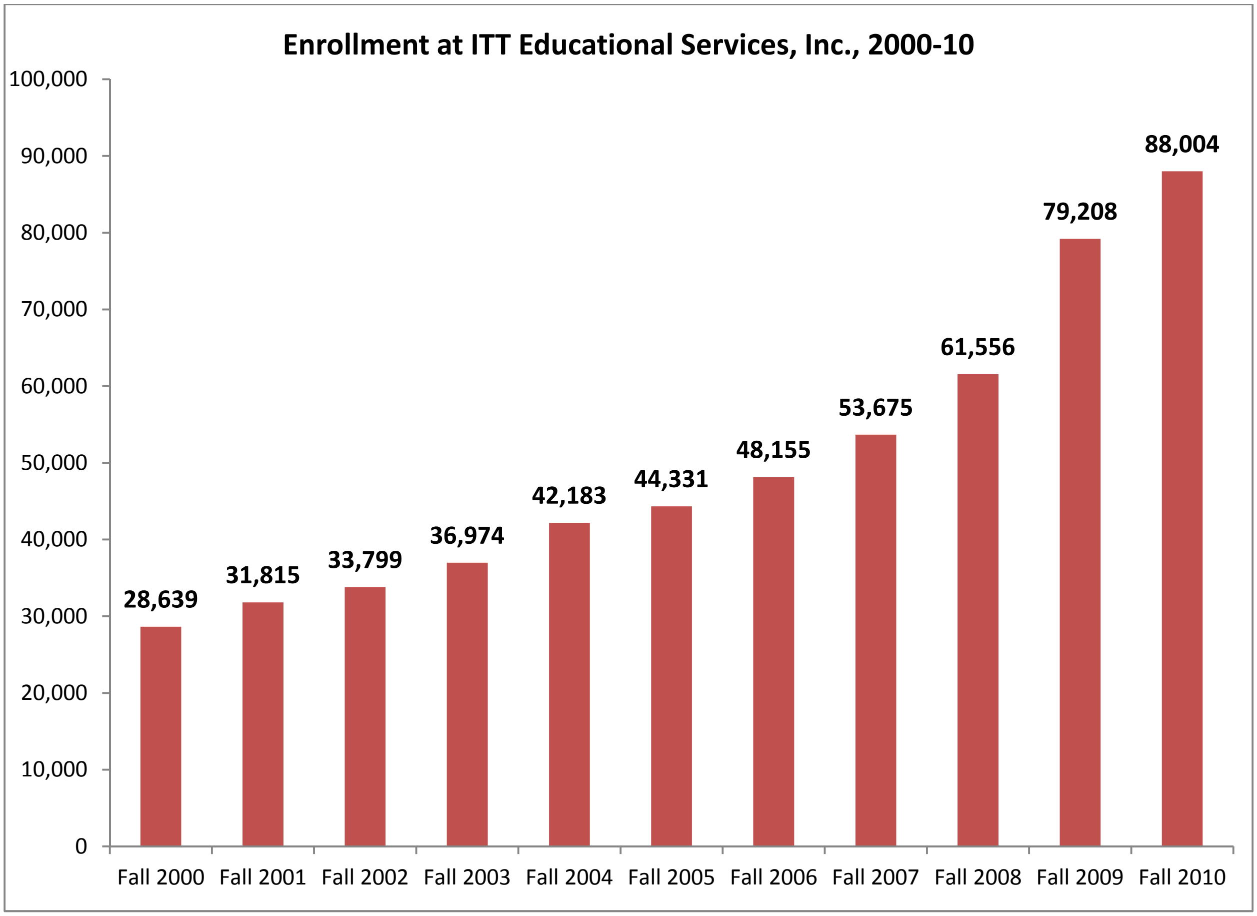
ITT is a publicly traded for-profit educational institution headquartered in Carmel, IN. ITT operates a total of 145 campuses in 35 States, along with an online division, and offers Associate, Bachelor's and Master's programs in electronics, drafting and design, criminal justice, business, information technology, health sciences, and nursing.[2062] Approximately 85 percent of ITT students are enrolled in associate programs.[2063] The largest programs at ITT are IT computer network systems, computer and electronics engineering technology, and computer drafting and design, which account for 75 percent of all students.[2064]

ITT operates two brands, ITT Technical Institute ("ITT Tech"), which accounts for 99 percent of the company's students, and Daniel Webster College, New Hampshire-based with approximately 600 students. ITT Tech campuses are accredited through a national accreditor, the Accrediting Council for Independent Colleges and Schools (ACICS). Daniel Webster College is regionally accredited by the New England Association of Schools and Colleges, Inc. (NEASC).

ITT was founded in 1946 and has been publicly traded since its 1994 initial public offering (IPO). Large institutional investors in the company include Blum Capital Partners (which owns 15.8 percent of the company), Wellington Management Company (13.99 percent), Select Equity Group (6.5 percent), and Providence Equity Group (5.6 percent).[2065]

The current chairman and chief executive officer of ITT is Kevin Modany. Modany has served as chairman since February 2008, and as CEO since April 2007. He also served as president from April 2005 through March 2007.

[2062] For list of campuses see http://www.itt-tech.edu/campus/ (Accessed May 4, 2012).
[2063] ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 29, 2012.
[2064] ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 23, 2011.
[2065] Blum Capital Partners (S13D Filed 2/28/2012), Wellington Management Company (S13G Filed 2/14/2012), Select Equity Group (S13G Filed 2/14/2012), and Providence Equity Group (S13G Filed 2/13/2012).



In the fall of 2010, 88,004 students were enrolled at ITT,[2066] a more than 200 percent increase since 2000. Enrollment fell slightly, in 2011 to 79,219 students. This drop in enrollment led to a drop in both revenue and profit. Eighty percent of the variance in new students is attributable to the company's decision to limit new enrollment in the criminal justice program.[2067] According to ITT's CEO, the reason for this limitation is concern regarding outcomes of criminal justice students.[2068]

ITT's growth has been the result of aggressive campus expansion, as the company adds about 8 to 10 new locations per year.[2069] The company has identified at least 50 additional locations that they see as "viable opportunities to continue to expand." [2070]

ITT's revenue has grown along with enrollment, more than doubling from $757.8 million in 2006 to $1.6 billion in 2010.[2071]

[2066] Enrollment is calculated using the Securities and Exchange Commission quarterly or annual filing for the August-October period each year. See Appendix 7.
[2067] ITT Educational Services, 2011, Q4 Earnings Conference Call with Investors.
[2068] Id. Internal documents demonstrate that at one individual campus criminal justice has the highest drop-out rate. ITT Educational Services, Criminal Justice and Composition March Department Meeting (ITT-00036911).
[2069] ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference. February 29, 2012.
[2070] Id.
[2071] Matching the drop in enrollment, revenue fell in $1.4 billion in 2011.
Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee. See Appendix 18.

Daniel Webster College

Daniel Webster College was acquired by ITT in 2009 for $20.6 million.[2072] According to news reports, the primary rationale for the purchase was because ITT wanted to acquire a regionally accredited college.[2073]

Following the acquisition, ITT fired one fourth of the staff, including the school president. Interviewed in early 2012, the former president stated, "ITT didn't have much interest in anything other than having acquired a regionally accredited institution" and that "if [he] had to do it all over again, [he] wouldn't have gone anywhere near ITT. The fundamental nature of the college has changed." [2074] He went on, "ITT came in and said, 'we only want faculty to teach, we'll develop curricula in Carmel, Indiana and give them to you." [2075]

Asked about Daniel Webster's growth potential, Michael Clifford (an investor involved in the formation of both Grand Canyon Education and Bridgepoint Education) noted that he believed that Daniel Webster College, "could parallel Grand Canyon or Bridgepoint's growth curve." [2076] While ITT initially had difficulty obtaining approval from the regional accreditor, after 2 years the company has finally obtained approval to begin to offer online programs (specifically business administration at the Associate, Bachelor's, and Master's level).[2077]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenues from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[2078] Together, the 30 companies the committee examined derived 79 percent of revenues from title IV Federal financial aid programs in 2010, up from 68 percent in 2006.[2079]

In 2010, ITT reported 60.8 percent of revenue from title IV Federal student aid programs.[2080] However this amount does not include revenue received from the Departments of Defense and Veterans

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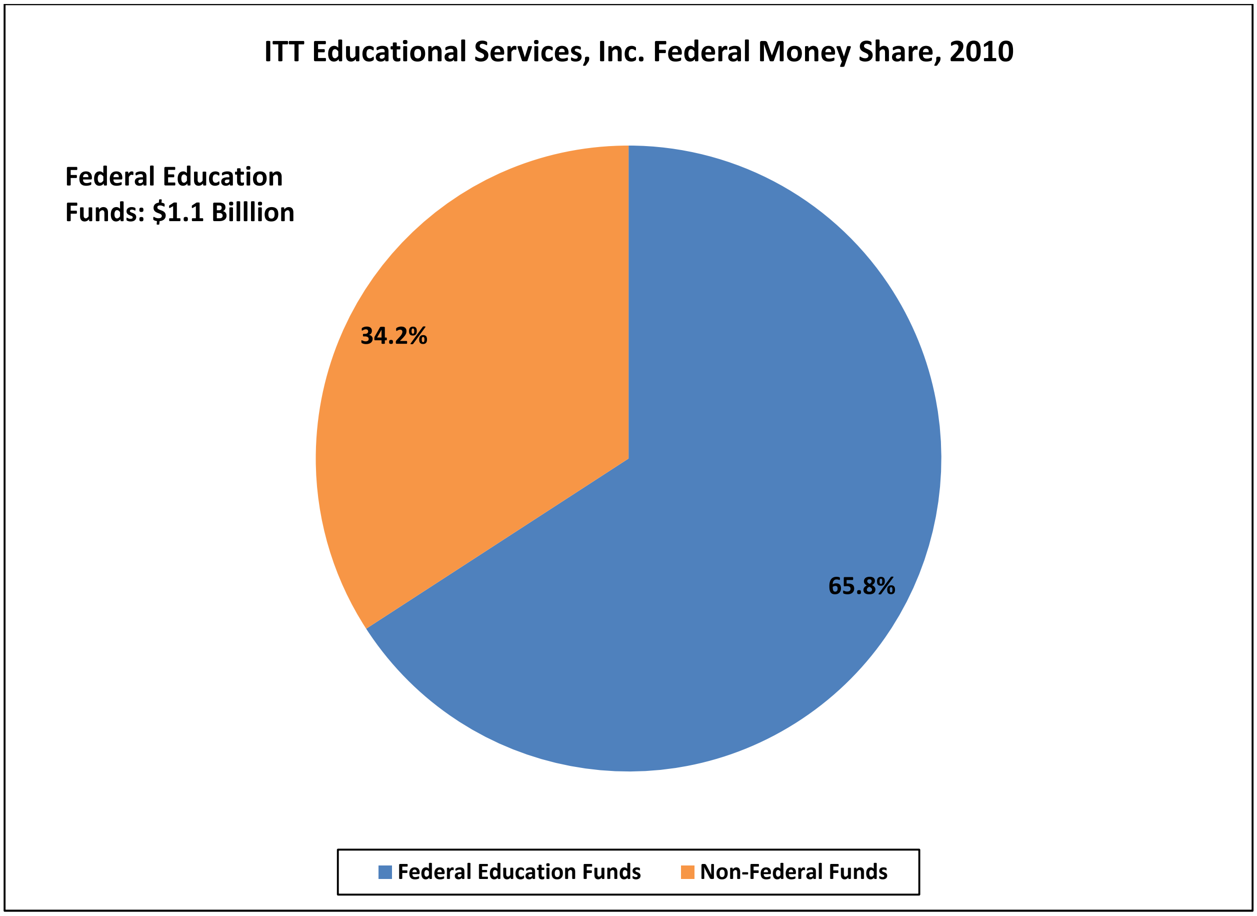
[2072] ITT Educational Services, 2009, Q2 Earnings Conference Call with Investors.
[2073] "Your Taxes Support For-Profits as They Buy Colleges" Bloomberg. Daniel Golden. March 4, 2012.
[2074] Id.
[2075] Id.
[2076] Id.
[2077] ITT Educational Services, "ITT Educational Services at Robert W. Baird and Co. Inc. Business Solutions Conference," *Lexis Nexis*, February 29, 2012.
[2078] "Federal financial aid funds" as used in this report means funds made available through Title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. § 1070 et seq. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012), 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education.
[2079] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.
[2080] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

Affairs education programs.[2081] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 5.1 percent of ITT's revenue, or $87.8 million.[2082] With these funds from the Departments of Defense and Veterans Affairs included, 65.8 percent of ITT's total revenue was comprised of Federal education funds.[2083] Additionally, ITT was able to mitigate potential 90/10 issues through the creation of a large scale semi-private lending program known as PEAKS.



Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; and the share of total Pell disbursements that for-profit

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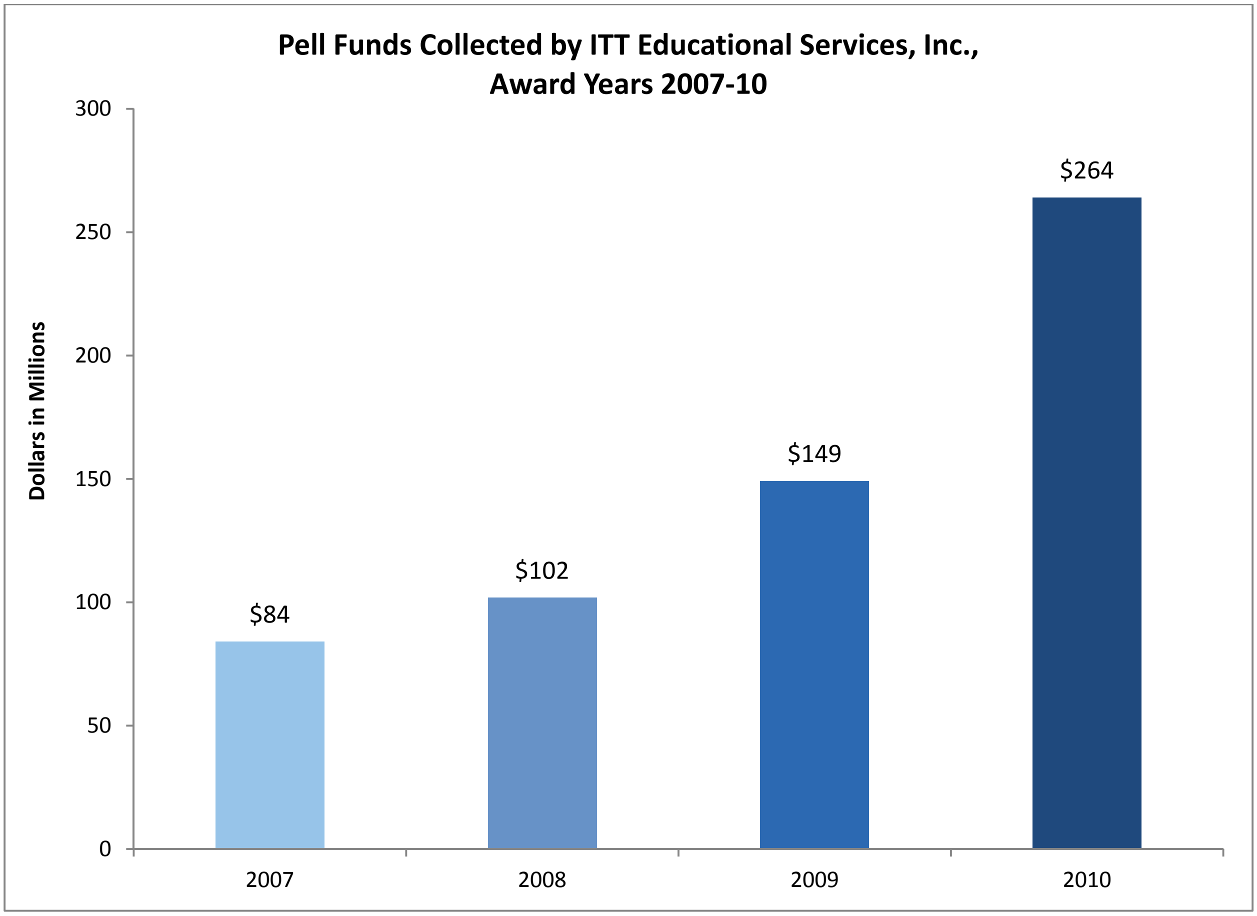
2081 The Ensuring Continued Access to Student Loan Act (ECASLA) increased Stafford loan amounts by up to $2,000 per student. The bill also allowed for-profit education companies to exclude the increased amounts of loan eligibility from the calculation of Federal revenues (the 90/10 calculation) during fiscal years 2009 and 2010. However, ECASLA calculations for ITT could not be extrapolated from the data the company provided to the committee.

2082 Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance disbursements and MyCAA disbursements for fiscal years 2009-11 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and 12.

2083 "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.

colleges collected increased from 14 to 25 percent.[2084] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive 2 Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.



ITT tripled the amount of Pell grants it collected, from $84 million in 2007 to $264 million in 2010.[2085]

Spending

While the Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded

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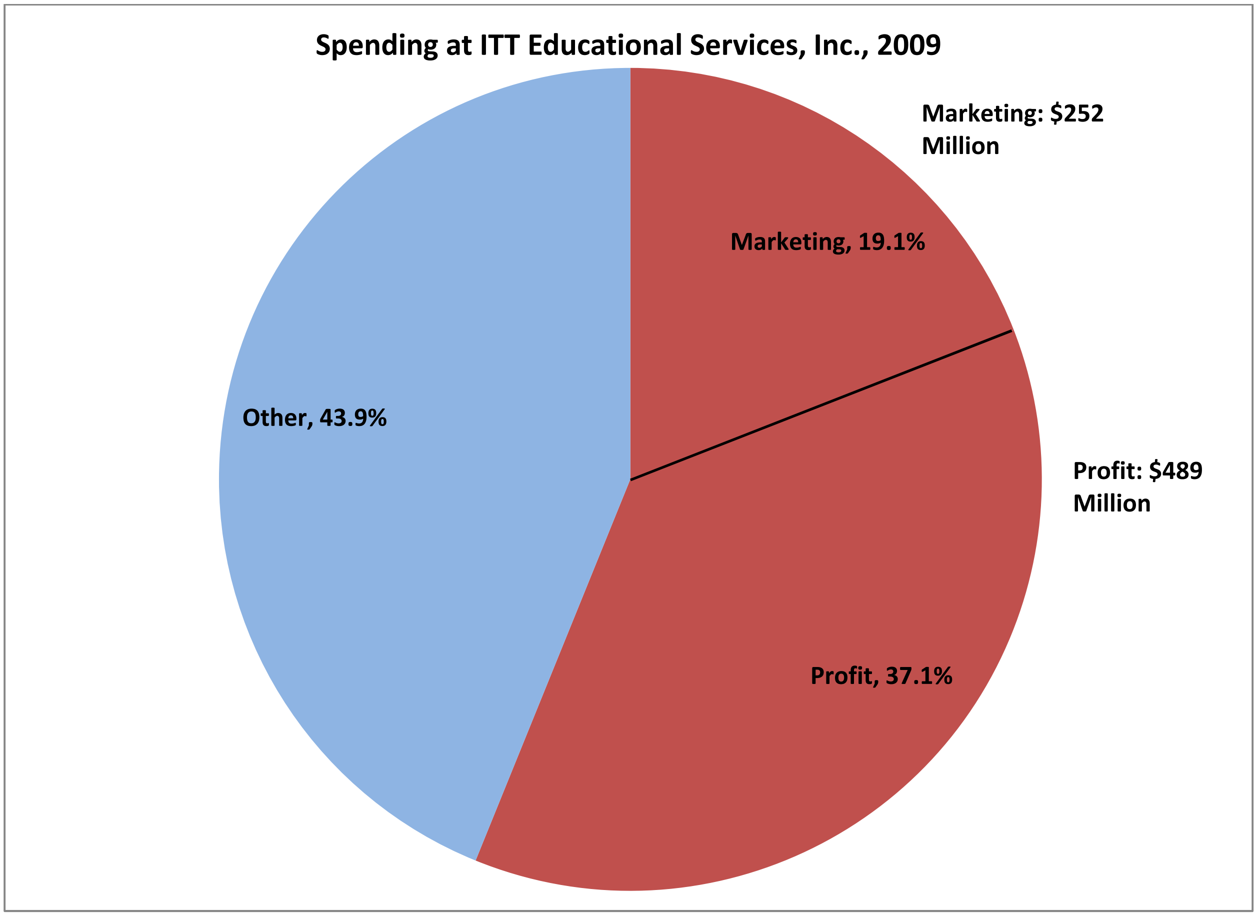
[2084] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.

[2085] Pell disbursements are reported according to the Department of Education's student aid "award year," other revenue figures are reported according to the company's fiscal year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-7 and 2009-10, http://federalstudentaid.ed.gov/datacenter/programmatic.html (accessed July 12, 2012). See Appendix 13.

education companies, 86 percent of revenues came from Federal taxpayers in fiscal year 2009.[2086] During the same period the companies spent 23 percent of revenues on marketing and recruiting ($3.7 billion), and 19.7 percent on profit ($3.2 billion).[2087] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.

In 2009, ITT allocated 37.1 percent of its revenue, $489 million, to profit, and 19.1 percent, $252 million, to marketing and recruiting.[2088] ITT's 37.1 percent profit margin is the highest amongst the 30 companies the committee examined.



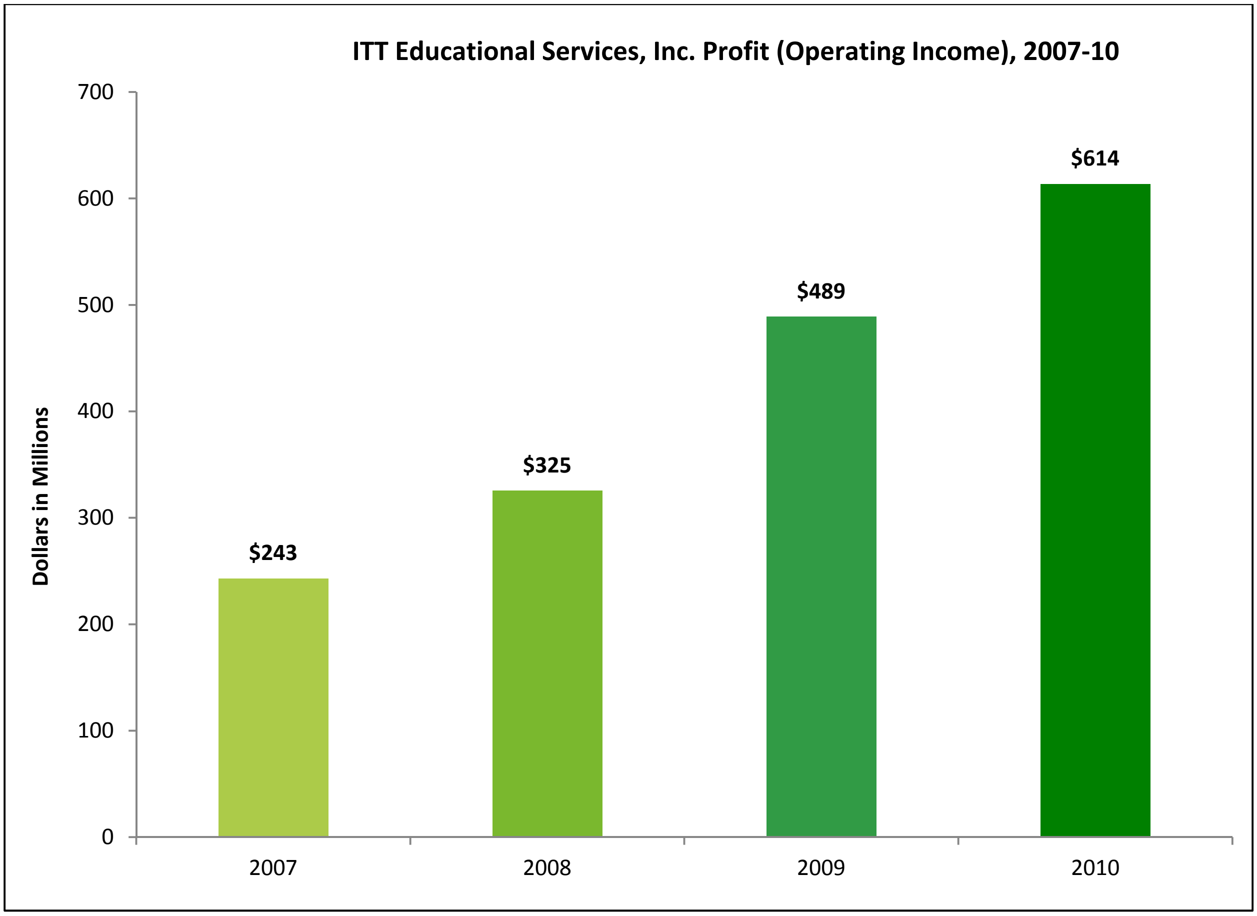
ITT devoted a total of $741 million to marketing, recruiting and profit in fiscal year 2009.[2089] The amount of profit ITT generated has increased rapidly, more than doubling from $243 million in 2007 to $614 million in 2010.[2090]

[2086] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.

[2087] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings and information provided to the committee by the company pursuant to the committee document request of August 5, 2010. Profit is based operating income before tax and other non-operating expenses including depreciation reported in SEC filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel as reported to the committee. See Appendix 19.

[2088] Id. On average, the 30 for-profit schools examined spent 23 percent of revenue on marketing and 19.4 percent on profit. "Other" category includes administration, instruction, executive compensation, student services, physical plant, maintenance and other expenditures.

[2089] Id.



Executive Compensation

Executives at ITT, like most for-profit executives, are also more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[2091] In 2009, ITT CEO Kevin Modany received $7.6 million in compensation, more than 22 times as much as the president of Indiana University at Bloomington, who received $337,144 in total compensation for 2009-10.

[2090] Senate HELP Committee staff analysis. See Appendix 18. Matching the drop in enrollment, profit fell in 2011 to $507 million.

[2091] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual proxy filings and chief executive salary surveys published by the Chronicle of Higher Education for the 2008-9 school year. See Appendix 17a.

Executive	Title	2009 Compensation	2010 Compensation
Kevin M. Modany	Chairman and CEO	$7,628,172	$6,745,967
Clark D. Elwood	Executive VP and CAO	$1,827,591	$1,425,939
Daniel M. Fitzpatrick	Executive VP and CFO	$1,794,617	$1,429,072
Eugene E. Feichtner	Executive VP and President, ITT Tech	$1,601,380	$1,327,513
June M. McCormack	Executive VP and President, Online Division	$1,512,783	$1,239,303
Total[2092]		$14,364,543	$12,167,794

The chief executive officers of the large publicly traded for-profit education companies took home, on average, $7.3 million in fiscal year 2009.[2093] Modany's $7.6 million compensation package for 2009 is slightly above average for publicly traded higher education companies.

Tuition and Other Academic Charges

Compared to public colleges offering the same programs, the price of tuition is higher at ITT. Tuition for an Associate degree in business administration at ITT's Indianapolis, IN campus was $44,895.[2094] The same program at Ivy Tech Community College in Bloomington, IN costs $9,385.[2095] Tuition for a Bachelor's degree in Business Administration at ITT's Indianapolis, IN campus costs $93,624.[2096] The same program at Indiana University in Bloomington, IN, costs $43,528.[2097]

[2092] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.

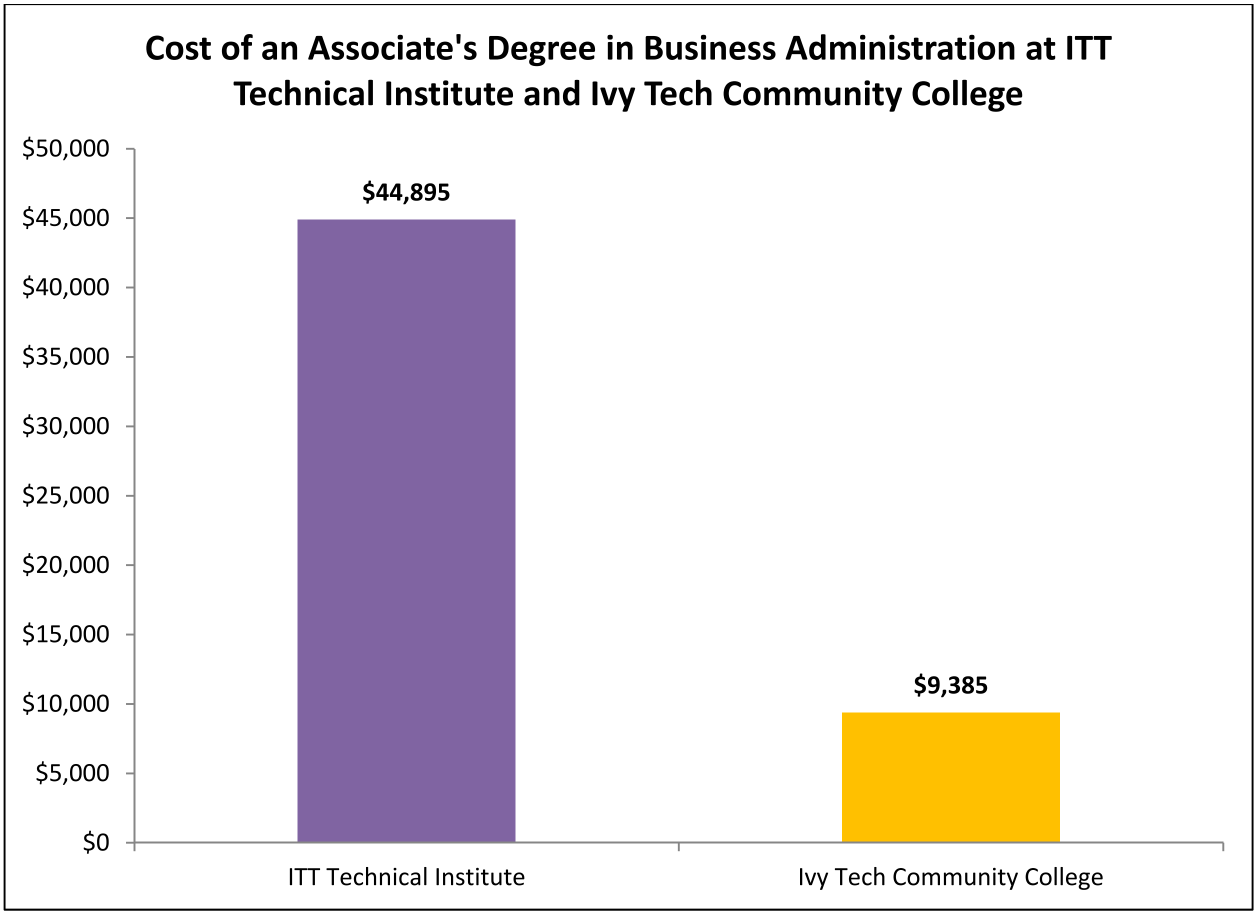
[2093] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.

[2094] See Appendix 14; see also, ITT Technical Institute, *Program of Study Information*, http://www.itt-tech.edu/programinfo/psi-ind.pdf (accessed July 12, 2012).

[2095] See Appendix 14; see also, Ivey Tech Community College, *Ivy Tech*, http://www.ivytech.edu/ (accessed July 12, 2012).

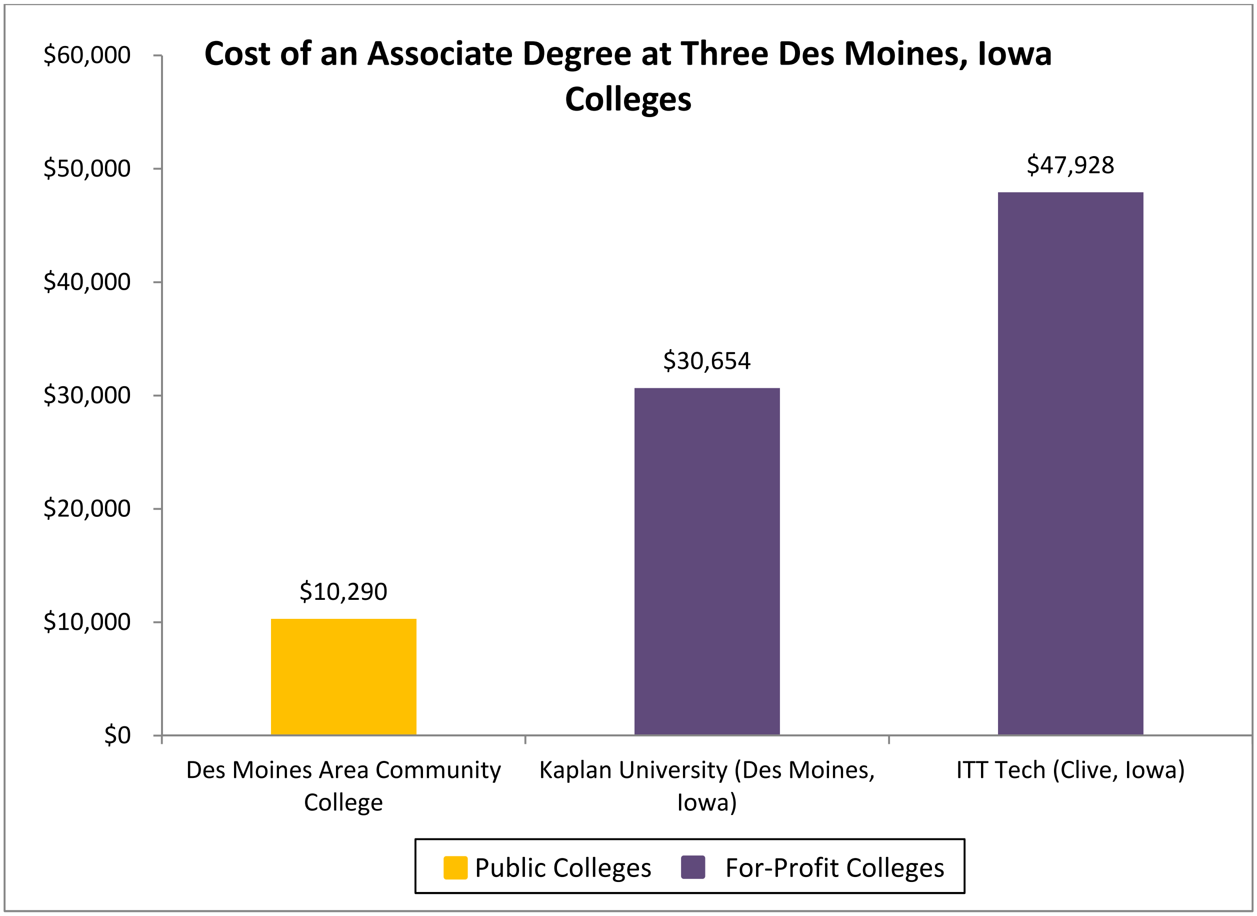
[2096] See Appendix 14; see also, ITT Technical Institute, *Program of Study Information*, http://www.itt-tech.edu/programinfo/psi-ind.pdf (accessed July 12, 2012).

[2097] See Appendix 14; see also, Indiana University, *Indiana University*, http://www.iub.edu/ (accessed July 12, 2012).



Not only does ITT cost more than their public school counterparts, it is also significantly more expensive than comparable for-profit colleges. For example, the cost of an Associate degree at ITT's Clive, IA campus is $47,928.[2098] The same degree at Kaplan University in Des Moines, IA is $30,654,[2099] and the degree costs $10,290 at the Des Moines Area Community College.[2100] ITT's Clive campus had a 54.7 percent withdrawal rate for students enrolling between 2008 and 2009.

[2098] ITT Technical Institute, *Program of Study Information*, http://www.itt-tech.edu/programinfo/psi-ind.pdf (accessed July 12, 2012).
[2099] see also, Kaplan University, *Tuition and Fees*, http://davenport.kaplanuniversity.edu/pages/tuition.aspx (accessed July 12, 2012).
[2100] Des Moines Area Community College, Des Moines Area Community College, http://www.dmacc.edu/ (accessed, July 12, 2012).



The higher tuition that ITT charges is reflected in the amount of money that ITT collects for each veteran that it enrolls. From 2009-11, ITT trained 11,856 veterans and received $178 million in post-9/11 GI bill benefits, averaging $15,042 per veteran. In contrast, public colleges collected an average of $4,642 per veteran trained in the same period.[2101]

Scholarships or Debt Reduction Strategy?

ITT asserts that its regular annual tuition increases, at least 5 percent for each of the 14 years between 1996 and 2010, reflect in part the return on investment students receive.[2102] However a confidential presentation to the company's board of directors presents a different take on the value of the student investment. Prepared in response to a draft rule defining the statutory term "gainful employment," that was subsequently revised and recently struck down by a district court decision, the presentation noted: "the overwhelming majority of our programs do NOT comply with the proposed 'GE bright line'[emphasis in original]" but that ITT "*could comply with the proposed rule by reducing tuition levels by an average of 11 percent.* [Emphasis in original]" [2103]

[2101] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.
[2102] ITT Internal Spreadsheets, Quarterly Financial Statements for 1996-2007 (ITT-00119308); See also; ITT Educational Services Internal Email, September 14, 2006, re: *ThinkEquality/ ESI: ThinkEquality Partners Growth Conference Highlights* (ITT-00139934).
[2103] ITT Educational Services, April 19, 2009, *Board of Directors Meeting* (ITT-00133682). On June 2, 2011, the administration released its final rule, which was significantly less impactful that the rule discussed by the board. Under the final rule, a school's degree program does not lose access to title IV funds unless it violates three separate thresholds (loan repayment rates below 35 percent, annual average loan payment less than 30 percent of students' discretionary income; *and*

Though an 11 percent cut would still keep ITT's program costs well above those at Kaplan, DeVry, Apollo, and other for-profit colleges, the presentation declared that the tuition reduction was the "least economically efficient scenario" because it would reduce debt levels for all students, not just graduates, while the proposed regulation only applied to the debt-to-income ratios of graduates.[2104] Essentially reducing tuition and thus debt for students who dropped out was deemed inefficient because they were, at that point, not captured in the regulation.

The board presentation went on to state that the "most economically efficient" solution would be to provide selective financial awards to students likely to graduate. By focusing on graduating students, these awards "effects only revenue from program completers," but would still "result in a reduction of the median loan debt balance of graduates in each program of study."

One of the scholarship programs created around the same time, the Presidential Scholarship, appears to mimic this strategy. The scholarship provides a 20 percent tuition reduction for Bachelor's degree students enrolled after September 2008 who first graduated from an ITT Associate program. It is *applied retroactively* after a student completes a given quarter. In this way, the company is able to reduce the debt loads of graduates, without "inefficiently" forgoing higher revenue from students who are not expected to graduate.

Cost Representations

Documents indicated that, at least during the period reviewed, ITT recruiters were trained to mislead prospective students about the cost of attending the school. When potential students inquire about the cost of tuition at ITT, recruiters are trained to answer with responses like:

> Do you want a discount education, or a valuable one that will give you a return in the future? [2105]
>
> Education is an investment in you and an investment in yourself is never a bad investment.[2106]
>
> Could you share with me your thoughts or ideas as to why you think it might be too expensive? [2107]

While prospective students are more likely to have difficulty obtaining a clear answer on the true cost of attending, current students can also encounter difficulty getting accurate information on price. When a panel member on an accreditation visit suggested that an ITT campus could post tuition increases in the student lounge, so that current students would be notified without first having to locate and read the updated course catalog, ITT's Regulatory Affairs Manager responded: "We comply with state requirements and ACICS criteria 3-1-342(a) by clearly posting the tuition and other charges in the

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the annual loan payments less than 12 percent of students total earnings) three separate times in 4 years. On June 30, 2012, the District Court for the District of Columbia struck down the gainful employment rule stating that the Department had failed to provide sufficient justification for the requirement that 35 percent of students are repaying loans. *Association of Private Colleges and Universities* v. *Duncan*, 2012 DC D 1:11-CV-01314-RC U, p. 29-31, available at http://big.assets.huffingtonpost.com/judgeordergainful.pdf (accessed July 6, 2012).

2104 ITT Educational Services, April 19, 2009, *Board of Directors Meeting* (Id., ITT-00133682).

2105 ITT Educational Services, January 16, 2009, *Phone Objections Training* (ITT-00011550 at ITT-00011552). The company asserts that this document reflects unapproved training material used at one campus of the school.

2106 Id.

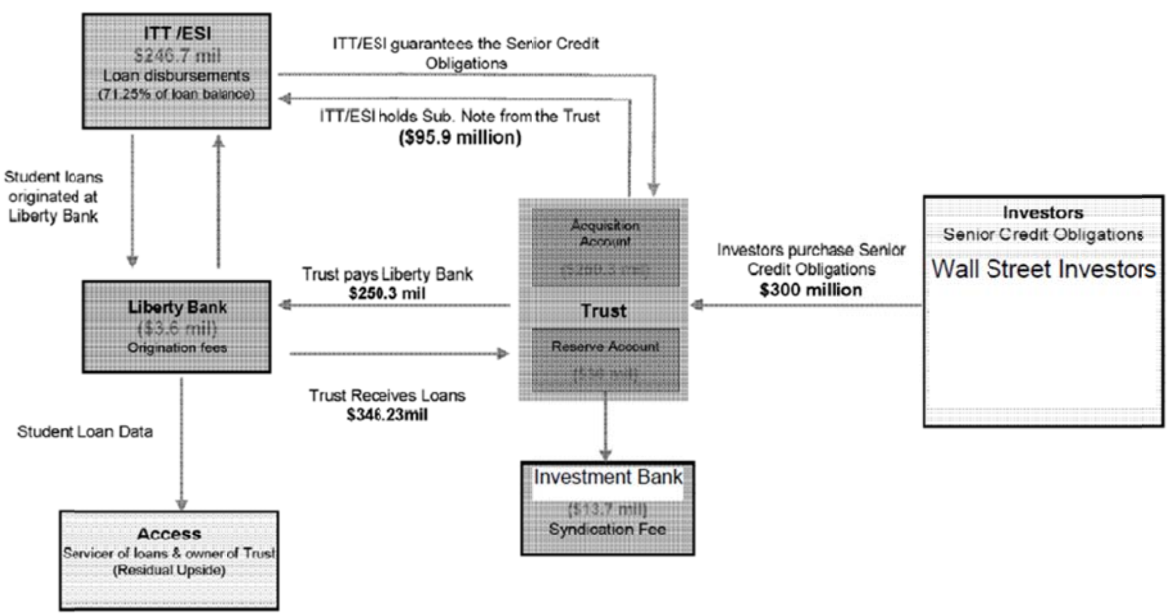
2107 ITT Educational Services Internal Memorandum, re: *Sample Actions for Common Objections* (ITT-00016826); See also ITT Educational Services Internal Memorandum, re: *Handling Objections* (ITT-00020084), ITT Educational Services Internal Memorandum, re: *Overcoming Objections* (ITT-00025676).

catalog. Until the ACICS criteria require an additional posting all ITT Technical Institutes will list tuition and other charges as required in the catalog."[2108]

ITT's PEAKS Program

Because of the price of tuition to attend ITT, in addition to Federal loans and grants, many students must rely on alternative financing. In order to meet this need, ITT partnered with a Wall Street investment bank to devise a lending program that, through an impressively complex series of financial transactions, may meet the definition of a "private" loan that ITT may count towards the 10 side of the 90/10 calculation.[2109]

ITT PEAKS Transaction Flowchart:



The program began with Liberty Bank, who issued $346 million in loans to ITT students. ITT took a 28 percent discount on these loans and received $246.7 million in cash from Liberty Bank. The loans were then sold to a trust that then issued $300 million in senior debt to a group of Wall Street investors. In exchange for their discount on the loans, ITT received a subordinated note from the trust and additionally guaranteed the senior debt holders payment of principal, interest, certain call premiums and administrative fees and expenses, regardless of whether the loans are repaid.[2110] The PEAKs program has a variable interest rate ranging from 4.75 to 14.75 percent.[2111]

2108 ITT Educational Services Internal Email, January 7, 2009: re: *Tuition increase- posting for students* (ITT-00080730).

2109 The regulations require institutional loan programs meet four requirements: (A) Are bona fide as evidenced by standalone repayment agreements between the students and the institution that are enforceable promissory notes; (B) Are issued at intervals related to the institution's enrollment periods; (C) Are subject to regular loan repayments and collections by the institution; and (D) Are separate from the enrollment contracts signed by the students. § 668.28 (a)(i)(A)-(D).

2110 According to ITT internal emails, it would require a 40 percent loss rate (two times the expected loss rate) before a payment on the guaranty would be required. ITT Educational Services Internal Email, November 18, 2009, re: *PEAKS* (ITT-00147688); See also, ITT Educational Services, *Default Graph* (ITT-00147689).

2111 ITT Educational Services, *Private Education Loan Application and Solicitation Disclosure by Liberty Bank*, (ITT-00080791).

ITT's CEO describes the PEAKs program as:

> A third-party private student finance program where our students apply for private lending to fill the gap financing need that they have … if a student gets a loan, for example, for a thousand dollars, there's less than that amount that is transferred to the company. So some amount of that loan stays behind to provide excess collateralization for the performance of the portfolio. And then in addition to that, the company provides guarantees on the performance of the program, and to the extent that the excess of collateralization would not be sufficient to cover the return on the investment that the senior notes that the investors put into the trust to fund the program.[2112]

As of June 30, 2011, ITT has exhausted the lending capacity of the PEAKs program and is no longer originating additional PEAKs loans, although the company has indicated they are interested in reinstituting a similar program.[2113] Between January 2010 and June 2011, in addition to Federal loans and grants, approximately $345 million in loans were made to ITT students. In 2009, the year before PEAKS funding was available, ITT's 90/10 ratio was 70 percent. For 2010, this ratio fell to 60.8 percent. While it is unclear as to the extent PEAKS is responsible for this drop, the program is likely responsible for at least a portion of this decline.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations, for-profit colleges must recruit as many students as possible to sign up for their programs.

Internal company documents make clear that recruiters employed by ITT are expected to pursue prospective students aggressively. During the period examined by the committee, recruiters are instructed that they are to make 140 calls a day if they have no appointments, and 100 if they have one.[2114]

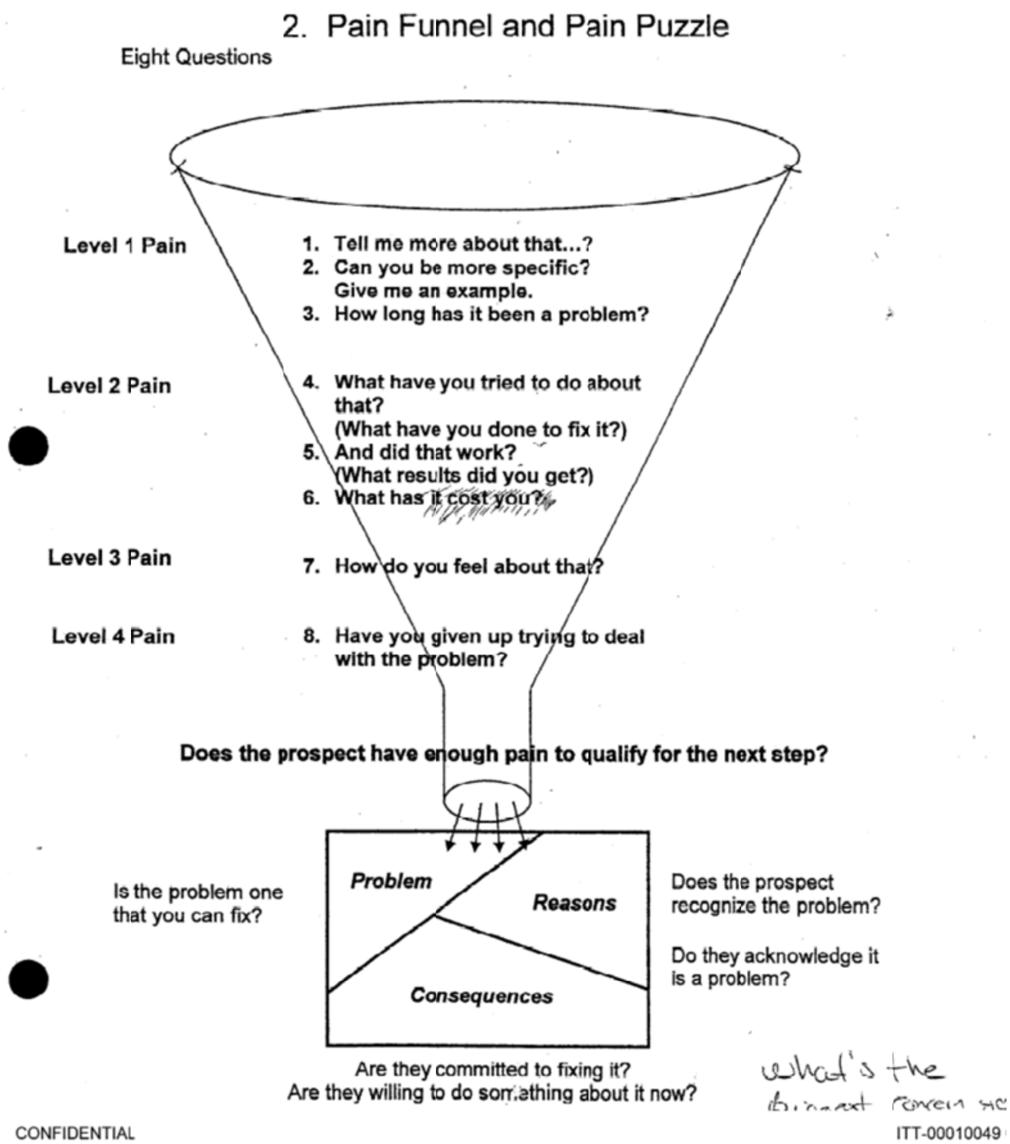
One pervasive sales technique employed by ITT is to manipulate a prospective student's emotions as a strategy to sell an enrollment contract. One ITT recruiting manager explained that a recruiter must "dig[] in and get[] to the pain of each and every prospective student." He added, "By getting to the pain, the representatives will be able to solidify the appointments and have a better show rate for the actual conducts." [2115]

ITT's training materials lays out the sales steps: "Establishing Rapport," "Transition into digging for the motivation," "Transiting into feeling the pain [sic]," and "Transitioning into making the

[2112] ITT Educational Services, "ITT at Credit Suisse Global Services Conference," *Lexis Nexis*, March 13, 2012.
[2113] ITT Educational Institution, July 2011, Q2 Earnings Conference Call with Investors; See also ITT Educational Institution, "ITT at Credit Suisse Global Services Conference," *Lexis Nexis*, March 13, 2012. ITT Educational Institution, March 13, 2012, Q1 Earnings Conference Call with Investors.
[2114] ITT Educational Institution Internal Training Document, *How Many Phone Calls is Good?* (ITT-00064242). The company asserts that this document was not created or approved by school management.
[2115] ITT Educational Institution Internal Memorandum, *June Analysis 2007* (ITT-00025689). The company asserts that this document is not representative of the school's policies and procedures and is an example of inappropriate actions by isolated individuals. The company asserts that this document was created and used by only a few campus-level employees and was never approved by the school.

connection between the motivation and getting a degree."[2116] To address students that sign an enrollment agreement but indicate they may not want to start school, recruiters are instructed to "poke the pain a bit" and "remind them what things will be like if they don't continue forward and earn their degrees."[2117]

ITT, however, goes a step further with their pain-based sales techniques. The company's "Pain Funnel" illustrates four levels of pain with questions corresponding to each level.[2118]



After a recruiter locates a prospective student's pain point, the "Pain Funnel" presents a number of questions that the recruiter can ask that are progressively more hurtful.[2119] In "Level 1" a recruiter asks

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[2116] ITT Educational Services, *Jan. 5th Friday Morning Training Session: Phoning Techniques* (ITT-00015566, at ITT-00015567-68)

[2117] ITT Educational Services Internal Document, *Ways to combat "drops" in marketing during the class building period* (ITT-00014590). The company asserts that this document was not authorized by ITT management or used widely at ITT's campuses.

[2118] ITT Educational Services Internal Training Document, *Sandler Sales Institute: Pain Funnel and Pain Puzzle* (ITT-00010049). See also ITT Educational Services Internal Training Document, *Questionairre Exhibit 3* (ITT-00010050), ITT Educational Services Internal Training Document, ITT Information and Definition Sheet (ITT-0023893). The company asserts that this document was never approved by the school.

prospective students, "tell me more about that" or "give me an example." In "Level 2" the recruiter asks "What have you tried to do about that?" The highest level asks a hurtful question to elicit pain: "Have you given up trying to deal with the problem?"

After Chairman Harkin released this documents during a statement on the Senate floor in February 2011, counsel for ITT wrote to the Chairman noting that "the conduct suggested by the documents referenced in your statement was not sanctioned by ITT." [2120] It goes on to note that ITT regrets that the conduct was suggested and has opened an investigation to determine the extent of the conduct and respond appropriately and decisively. However, also following the release of the document, HELP Committee staff were contacted by counsel for a former ITT recruiter who had created the ITT specific version of the "pain funnel." Committee staff subsequently interviewed the recruiter.[2121] As the recruiter details in her letter to the committee, she adapted documents from a sales training that ITT had paid for her to attend and brought them to her ITT campus.[2122] She states that she trained many other ITT staff using the pain funnel:

> In addition, at quarterly district meetings I did pain funnel training for nearly every top recruitment representative, financial aid coordinator, dean, instructor, department chairs, all functional managers, all college directors and the district manager for the entire Southern California District, the largest district in the country. The presentation material was also given out to over 100 ITT Tech employees throughout every department in the district.[2123]

She goes on to state that she submitted the document to executives at ITT headquarters for consideration for an award:

> In October 2009, I wrote up a BEST OF THE BEST (BOB) submission to HQ that included the same "Pain Funnel and Pain Puzzle" and how proper usage of this tool can bring a prospect to their inner child, an emotional place intended to have the prospect say yes I will enroll.[2124]

Thus, it is unclear how the documents and its contents could be classified as not sanctioned.

Compensation based on recruitment goals is not limited to enrollment staff. In 2008, and prior to the ban on incentive based compensation, ITT's management employee performance and compensation depended on meeting several "Corporate Objectives," which included: "Total Enrollment Growth" of 9 percent, "Earnings Per Share" of 20 percent, "Free Cash Flow" of 15 percent, and "Graduate Employment Rate" of 85 percent.[2125]

At the staff level, in addition to salary increases, managers use prizes and awards to drive sales. At ITT, "ANY TEAM WITH 6 APPOINTMENTS SET … <u>OR</u> 2 APPLIED CAN WORK AN EARLY

2119 ITT, *Pain Funnel and Pain Puzzle* (ITT-00010049) (training materials prepared by Sandler Sales Institute). See also ITT, *ITT Technical Institute Questionnaire: Exhibit 3* (ITT-00010050). The company asserts that this document was never approved by ITT management.
2120 Letter to Chairman Harkin, from ITT Counsel, Gibson Dunn & Crutcher, LLP, February 10, 2011.
2121 Majority HELP Committee staff interview with Laura Brozek and Wayne Beaudoin, June 21, 2011.
2122 Letter from Laura Brozek, June 24, 2012.
2123 Id.
2124 Id.
2125 ITT Educational Services, *2008 Performance Planning and Evaluation (PP&E) Form for Management Employees* (ITT-00056795).

SHIFT ON WEDNESDAY…. [Emphasis in original]" [2126] Many of these practices have been limited by the ban on incentive compensation that took effect in July 2011, a ban that ITT's CEO called "absolutely egregious, [it's] just nonsensical, [it's] illogical." [2127]

Documents also demonstrate a focus on recruiting students eligible for military benefits. ITT is the second highest recipient of post-9/11 GI bill funds, taking in $178 million between 2009 and 2011. In 2009, ITT initiated a military marketing plan with the goal of increasing military enrollments by 20 percent at 42 selected campuses.[2128]

In addition, executives sought to increase the amount of Department of Defense Tuition Assistance funds the company received. CEO Kevin Modany wrote in an email "We didn't even make the top 40 providers to the military! What an opportunity that we have in front of us!" He went on, "We need to see how we can penetrate this world with ITT Tech AND DWC [Daniel Webster College]!! [Emphasis in original]" [2129]

Complaints demonstrate that pressure to recruit students resulted in the use of some misleading and deceptive tactics. One combat veteran with Post Traumatic Stress Disorder wrote to ITT saying:

> The ITT Representative I met with told me that the military would pay for my schooling. … Then a few months letter, I got bills from Sallie Mae saying I owe money for two loans [sic]! A federal and a private loan! What!? I was told I would never see a bill.[2130]

The mother of the same soldier wrote in about her son's experience with an ITT representative:

> The Rep. told him he needed a co-signor just so he could start school immediately, but not to worry about it, because the military was going to pay for everything, even give him money to live on and pay his expenses [sic]. He sounded so hopeful, something I hadn't heard from him since before the war. It was really hard for him to admit he couldn't continue going to school. He said, he just couldn't retain the material… He could hardly come around me when he found out Sallie Mae was calling me for payment of his loan. Veterans with PTSD commonly isolate themselves from family and friends. This made it even worse.[2131]

Non-military students complained that they felt misled or deceived by recruiters. An ITT student complained that:

> during the tour and meeting with the student representative for admissions, I was given an overview of the school's program, which explained that I would earn a BA in Criminal Justice, which would support the needs I was seeking, of which were to apply for law

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[2126] ITT Educational Services Internal Email, December 22, 2009, re: *CONTEST UPDATE! ! ! 30 APPOINTMENTS – YAHOO ! ! !* (ITT-00028551, at ITT-00028552).
[2127] ITT Educational Services, 2011, Q1 Earnings Conference Call with Investors.
[2128] ITT Educational Services Internal Email, December 8, 2009, re: *FW: 2010 Military Marketing Plan* (ITT-00123921, at ITT-00123921-22); See also ITT Educational Services Internal Document, *Military Marketing Plan* (ITT-00123927); ITT Educational Services, July 7, 2008, *ITT Educational Services Inc. Operations Department Proposal Draft: Military Recruitment Proposal* (ITT-00144035).
[2129] ITT Educational Services Internal Email, February 18, 2010, re: *FW: Stifel: Education-Summary from the CCME Conference Kickoff* (ITT-00140384).
[2130] ITT Educational Services Internal Email, January 29, 2009, re: *(redacted)* (ITT-00007708, at ITT-00007744).
[2131] Id., at ITT-00007716.

school. I was also advised that should I decide to transfer to another college, that the credits were transferable.[2132]

Two years and tens of thousands of dollars later, the student discovered that he could not transfer credits, and that most law schools would not accept the degree.

One student complaining about the school misleading him regarding the transferability of credits stated, "We had discussed many things but I am feeling now that I was mislead [sic]. [The recruiter] had me initial a bunch of papers which I do not feel were explained to me very properly. I am just not finding out that my credits are not transferable to the University I was specifically discussing with him [sic]… He said my credits would transfer and could possibly be ahead of other students with the on hand training ITT teaches. I was trusting the representative of ITT believing he was telling me the truth." [2133] Another student complained, "We have been misinformed and mislead. [sic] Your recruiters do not reveal all the issues, use general statements and they do not clearly explain what the bachelor degree really is. We enrolled in good faith, thinking we were working towards a diploma improving our future, but instead we would have paid a lot of money for something insignificant." [2134]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on ITT's academic quality.

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program, take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[2135]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee and (2) student loan "cohort default rates." These metrics indicate that many students who enroll at ITT are not achieving their educational and career goals.

Retention Rates

Information ITT provided to the committee indicates that, of the 64,921 students who enrolled at ITT in 2008-9, 52 percent, or 33,733 students, withdrew by mid-2010. These withdrawn students were enrolled a median of 3 months.[2136] Overall, ITT's withdrawal rate closely tracks the sector-wide rate

[2132] ITT Educational Services, February 2, 2007, *Student Comment/Complaint Report* (ITT-00006208).
[2133] ITT Educational Services, August 22, 2008, *Student Comment/Complaint Report* (ITT-00008037, at ITT-00008040).
[2134] ITT Educational Services, May 11, 2010, Student Complaint Letter to Christopher Carpenter re: Grievance Procedure step 2 (ITT-00009637, at ITT-00009686).
[2135] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief,* August 2009, http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 14, 2012).
[2136] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010,

withdrawal rate of 54 percent. The majority of ITT's students are enrolled in 2-year associate degree programs. More than half these students, or 30,012 students withdrew by mid-2010.[2137] The costs of withdrawal can be substantial, as 95 percent of ITT defaulters were students who did not graduate.[2138]

Status of Students Enrolled in ITT Educational Services, Inc. in 2008-9, as of 2010						
Degree Level	**Enrollment**	**Percent Completed**	**Percent Still Enrolled**	**Percent Withdrawn**	**Number Withdrawn**	**Median Days**
Associate Degree	56,557	5.0%	42.0%	53.1%	30,012	96
Bachelor's Degree	8,364	6.0%	49.5%	44.5%	3,721	85
All Students[2139]	64,921	5.1%	42.9%	52.0%	33,733	95

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdraw after mid-2010 when the data were produced.

Student Loan Defaults

While the number of students leaving ITT with no degree is lower than some, the number of students defaulting on student loans is high. The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[2140]

Slightly more than 1 in 5 students who attended a for-profit college, (22 percent) defaulted on a student loan, according to the most recent data.[2141] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[2142] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions.[2143] The consequence of this higher rate is that almost half of all student loans defaults nationwide are held by students who attended for-profit colleges.[2144]

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students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

2137 It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

2138 ITT Educational Services,2010, Q2 Earnings Conference Call with Investors.

2139 The committee analyzed data for students who enrolled at each company between July 1, 2008 and June 30, 2009. This dataset did not include ITT students who enrolled prior to July 1, 2008. The inclusion of these students could potentially have resulted in a lower overall percentage of students withdrawing.

2140 Direct Loan Default Rates, 34 CFR 668.183(c).

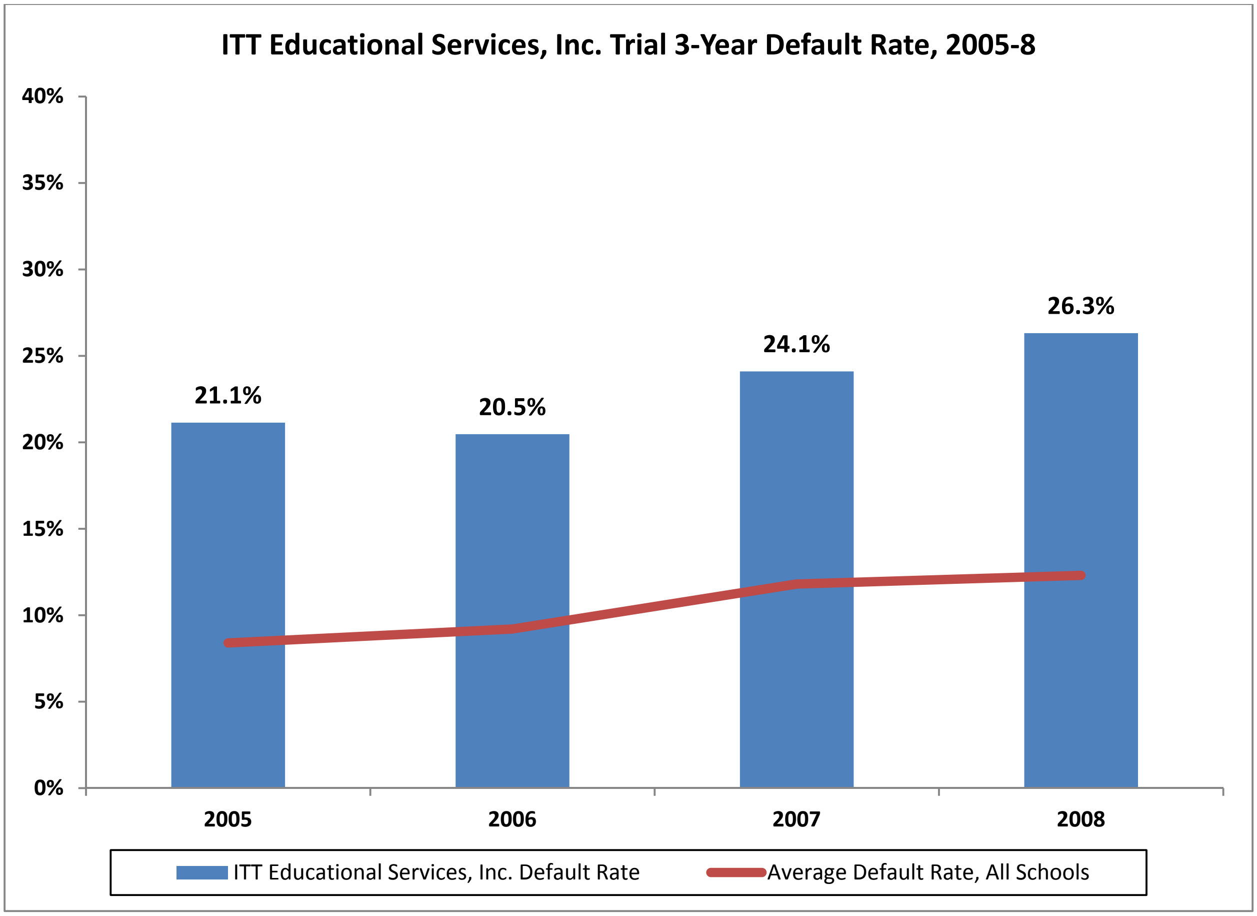
2141 Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default by sector.

2142 Id.

2143 Id.

2144 Id.

The 3-year default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[2145] This change represents a 32.6 percent increase over 4 years.[2146] ITT's default rate has similarly increased, growing from 21.1 percent for students entering repayment in 2005 to 26.3 percent for students entering repayment in 2008. ITT's most recent default rate is the sixth highest rate of loan default amongst the 30 schools examined by the committee. The company expects its 2009 draft 3-year cohort default rate to be approximately 34 percent.[2147]



Default Management

It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. Helping get delinquent students into repayment, deferment, or forbearance prior to default is encouraged by the Department of Education. However, for many students forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

Default management is primarily accomplished by putting students who have not made payments on their student loans into temporary deferments or forbearances. Default management contractors are

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[2145] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.htm (accessed July 12, 2012). Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

[2146] Department of Education 3-year cohort default rate, for students entering repayment in fiscal years 2005, 2006, 2007 and 2008.

[2147] Note this figure is prior to any appeals that that company expects to make. ITT at Credit Suisse Global Services Conference March 13, 2012.

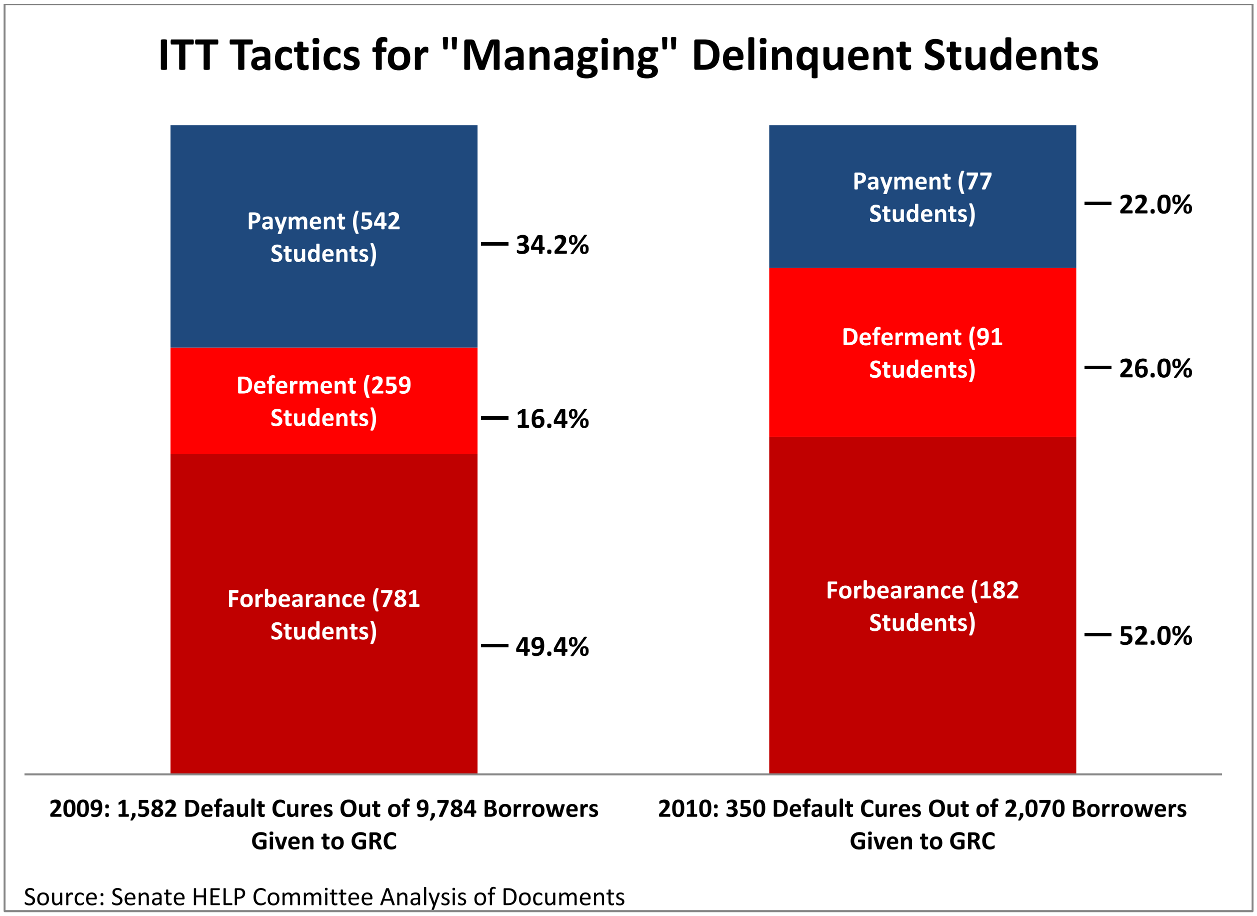
paid to counsel students into repayment options that ensure that students default outside the 2-year, soon to be 3-year, statutory window, in which the Department of Education monitors defaults.

ITT has only recently begun to focus these efforts on bringing down their 3-year default rate. When discussing as to why the 3-year default rate was higher than the 2-year, ITT CFO Daniel Fitzpatrick stated:

> I think that you do know that when we talk about adding that third year into the calculation, really that third year was not really worked at all, in the way the first two years are worked and so it is really hard to indicate what type of impact we can have there. We know that when we provide default management services there, we are able to mitigate losses.[2148]

ITT, like many other for-profit colleges, contracted with the General Revenue Corporation (GRC), a subsidiary of Sallie Mae, to "cure" students who are approaching default. Under the agreement, ITT pays GRC a fee of $30 for every student borrower who entered repayment between October 1, 2008 and September 30, 2009, and a performance bonus of $50 for each borrower cured by GRC.[2149] In practice, documents indicate that nearly all "cures" are accomplished by deferment or forbearance, not by students actually repaying their loans. And this is reflected in the GRC's reporting to ITT. In 2010, 78 percent of those cured by GRC were cured by being placed in deferment or forbearance.

[2148] ITT Educational Services, 2009, Q4 Earnings Conference Call with Investors.
[2149] ITT Educational Services, January 24, 2010, *Cohort Default Management Services Agreement* (ITT-0002284); See also ITT Educational Services, June 24, 2010, *First Amendment to Cohort Default Management Services Agreement* (ITT-00002281);ITT Educational Services, August 20, 2010, Letter from Erick Johnson, General Revenue Corporation, to Dan Fitzpatrick, re: Second Amendment to Cohort Default Management Services Agreement (ITT-00002277);ITT Educational Services, August 25, 2005, General Revenue Corporation Contract for Services (ITT-00002264).



This practice is troubling for taxpayers. The cohort default rate is designed not just as a sanction, but also as a key indicator of a school's ability to serve its students and help them secure jobs. If schools actively work to place students in forbearance and deferment, that means taxpayers and policymakers fail to get an accurate assessment of repayment and default rates. A school that has large numbers of its students defaulting on their loans indicates problems with program quality, retention, student services, career services, and reputation in the employer community. Aggressive default management undermines the validity of the default rate indicator by masking the true number of students who end up defaulting on their loans. Critically, schools that would otherwise face penalties—including loss of access to further taxpayer funds—continue to operate because they are able to manipulate their default statistics.

Moreover, forbearances may not always be in the best interest of the student. This is because during forbearance of Federal loans, as well as during deferment of unsubsidized loans, interest still accrues. The additional interest accrued during the period of forbearance is added to the principal loan balance at the end of the forbearance, with the result that interest then accrues on an even larger balance. Thus, some students will end up paying much more over the life of their loan after a forbearance or deferment.

Instruction and Academics

Students and employers expect to be able to trust that institutions of higher education, especially career-focused education, are teaching skills that are valued in the workplace with appropriate integrity and rigor. Undercover observation and student complaints reveal that many for-profit schools have curriculums that do not challenge students, academic integrity policies that are sparsely enforced, and teaching interactions that in some cases do not lead to successful student learning and outcomes.

In 2011, GAO undercover students enrolled in 12 different online colleges using fictitious identities and academic credentials. ITT was one of the schools visited by the GAO, with agents enrolling in three different courses at ITT.

In a "Learning Strategies and Techniques" course at ITT, students were instructed to write 1 to 2 pages describing the eight-steps to problem solving and apply them to a work, school, or personal problem. The undercover agent submitted a word document that listed four-steps of problem solving, along with five short sentences referencing a time management problem. The teacher awarded the submission a grade of 90 percent, along with the following feedback: "Paper met expectations; however, it was submitted two days late resulting in a 10% deduction." [2150] The student also received full credit for an assignment submitted for this class that had also been submitted for another class, and contained a clear notation that it was prepared for the other class.[2151] In another class, the student received 100 percent of the available points, despite submitting only two of three required components.[2152]

The GAO undercover student also had a number of issues at ITT independent of academic quality. After the student withdrew, ITT provided the student's information to the collection agency before providing a final bill.[2153] College personnel stated this is how they handle all student accounts.[2154] School staff also stated that exit counseling had been provided during the entrance interview.[2155] Regulations concerning exit counseling state that it must be conducted shortly before or after withdrawal.[2156]

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending, and what students say about their experience are two useful measures.

ITT spent $2,839 per student on instruction in 2009, compared to $3,156 per student on marketing and $6,127 per student on profit.[2157] The amount that publicly traded for-profit companies spend on instruction ranges from $892 to $3,969 per student per year. In contrast, public and non-profit 4-year colleges and universities, generally spend a higher amount per student on instruction while community colleges spend a comparable amount but charge far lower tuition than for-profit colleges. Other Indiana-based colleges spent, on a per student basis, $11,856 at Indiana University-Bloomington, $4,193 at Indiana Wesleyan University, and $2,827 at Ivy Tech Community College.[2158]

[2150] ITT Educational Services, February 22, 2011, Assessment Writing Assignment, (HQ-4682883).
[2151] GAO II.
[2152] GAO II.
[2153] GAO II.
[2154] GAO II.
[2155] GAO II.
[2156] 1934 C.F.R. § 685.304.
[2157] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.
[2158] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes–which do not include construction, leasing and maintenance of physical buildings–are not passed on to students, who pay the same or higher tuition for online courses.

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee examined, 80 percent of the faculty is part-time, higher in some companies.[2159] In 2010, ITT employed 1,682 full-time and 4,473 part-time faculty.[2160]

Complaints from ITT's students reflect concerns with academic quality. One ITT student complained, "The complete and total lack of preparation, effort, and desire to perform on the part of the instructor has made this course without any doubt in my mind the largest waste of time, money, effort, and resources since I have begun attending this school." [2161] Another student said, "[I was] rather frustrated with the class I took, felt that I learned nothing and do not feel a bill for $2500 is a fair amount to be paying for a rather inadequate education." [2162]

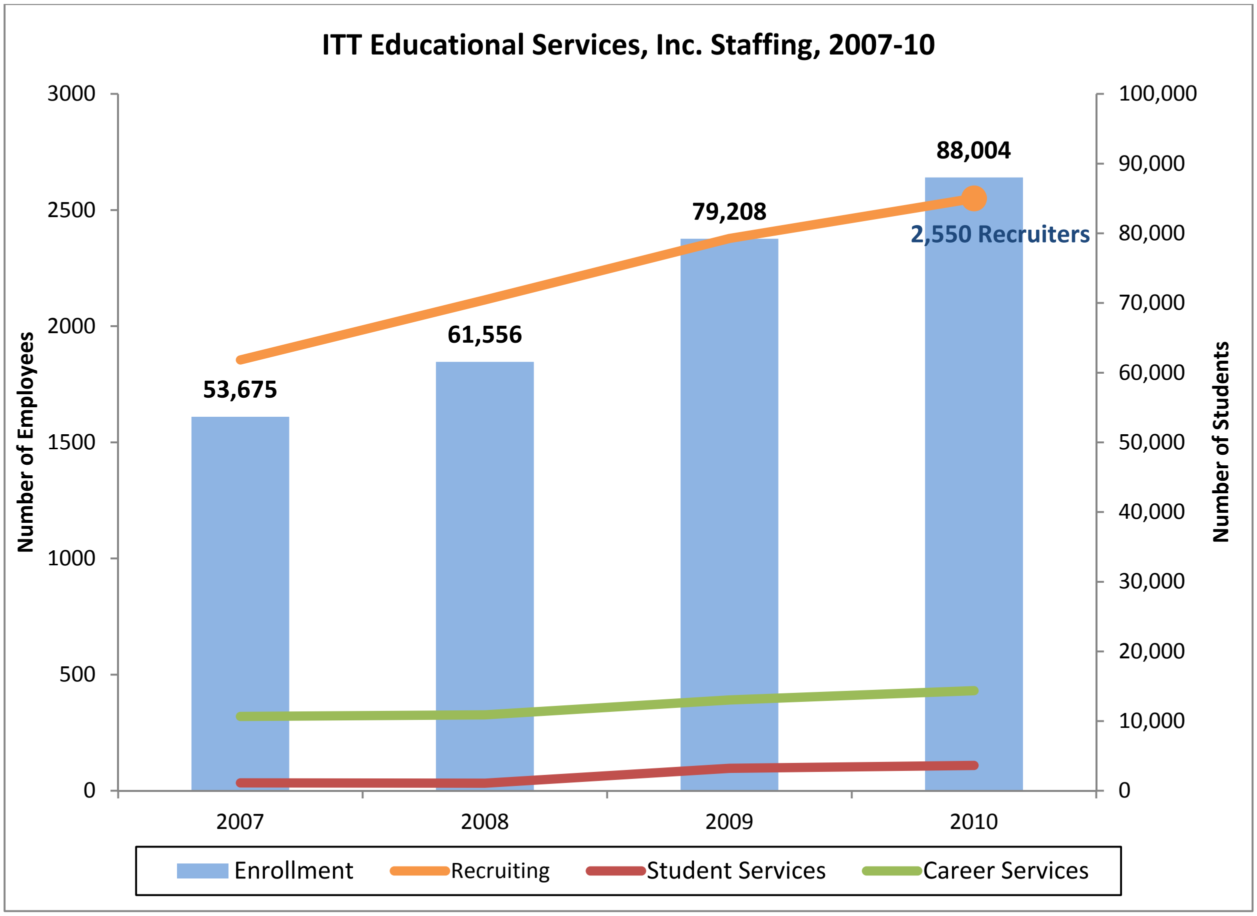
An ITT student taking courses in IT and Web site design complained, "Several of the classes were inadequate due to untrained or unqualified instructors, the lack of any instructor in certain class, the lack of book availability in other courses, and problems accessing equipment and software in others." The student's web design class "was inadequate due to instructor … not teaching any HTML coding language and instead encouraging students to find code from other Internet websites and copy and paste said code as the student's own work. Furthermore, [the instructor] spent the class period playing [a video] game instead of evaluating student projects." [2163] Another ITT student complained, "I have a huge problem. I have no teacher. It seems that ITT has yet again fired a teacher that plays a very important role up there with out a replacement [sic]. Therefore, there was a class full of students up there last night and not one person knew what was going on." [2164] A different student complained, "When I started I was shocked to find out that my first class was an intro to pc's class, when I though I would be challenge I was thinking that it would be hard classes not hard classes to stay awake in [sic]." [2165] Another student complained, "The online teachers do not know anything about the subject they teach, at least that has been my experience. The online teacher cannot answer simple questions, instead they insult you and tell you to refer to the book…This is a horrible school. The faculty hates their job. All of the students in my program are very unhappy with the school. No one I know will ever attend this school." [2166]

In 2006, the ethical practices of ITT Tech's Little Rock campus were called into question by its accreditor ACICS for instructing faculty "to inform their students that students are not to complain to the committee about any grievances they may have" and that "faculty are to remain in their class until the end of the assigned course period and not leave early while the accrediting committee are here." [2167]

[2159] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.
[2160] Id.
[2161] ITT Educational Services, August 17, 2006, *Student Comment/Complaint Report* (ITT-00003876).
[2162] ITT Educational Services, April 19, 2010, Letter from Lynn Ward, re: Student Complaint (ITT-00009785, at ITT-00009786).
[2163] ITT Educational Services, February 22, 2007, *Student Comment/Complaint Report* (ITT-00005085 at ITT-00005086).
[2164] ITT Educational Services, December 12, 2006, *Student Comment/Complaint Reprot* (ITT-00004629); See also ITT Educational Services, August 28, 2008, *Student Complaint Summary* (ITT-00006239).
[2165] ITT Educational Services, February 22, 2006, Email re: *FW: To whom it may concern* (ITT-00004186, at ITT-00004189) (SIC).
[2166] ITT Educational Services, May 6, 2006, *Student Comment/Complaint Report* (ITT-00004287).
[2167] ITT Educational Services, January 23-25, 2006, *New Grant, New Program, AND Credential Inclusion Evaluation Reports* (ITT-00124632, at ITT-00124638). *See Also* ITT-00124630 and ITT-00124829.

Staffing

While for-profit education companies employed large numbers of recruiters to enroll new students, the same companies employ far less staff to provide tutoring, remedial services or career counseling and placement. In 2010, with 88,004 students, ITT employed 2,550 recruiters, 431 career services employees, and 109 student services employees.[2168] That means each career counselor was responsible for 204 students and each student services staffer was responsible for 807 students, but the company employed one recruiter for every 34 students.



For-profit schools enroll large numbers of non-traditional students who may be low-income and first generation college students, who require more extensive support and services in order to succeed in college.[2169] ITT employees, for example, indicated in an internal email that over 90 percent of their students at their Owings Mills campus cannot do basic math.[2170]

[2168] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

[2169] According to the recently released GAO Report "Student Outcomes Vary at For-Profit, Nonprofit, and Public Schools," for-profit schools enroll a much higher percentage of African-American or Hispanic students compared to other sectors. Forty-seven percent of the students at for-profit colleges are African-American or Hispanic, compared to 28 percent at public schools, and 24 percent at private non-profits. The same report indicates that for-profit colleges enroll a higher proportion of low-income students. At for-profit colleges, 76 percent of students are financially independent and have an annual median family income of $22,932. These numbers were 34 percent and $61,827 for private non-profits, and 46 percent and $44,878 for public schools. For-profit colleges also enroll a larger number of first generation college students as only 34 percent of

One student, the first in her family to attend college, was told by ITT school administrators after she attempted to obtain tutoring that, "I needed to watch who I spoke to, and how the people I was talking to weren't my friends, that they were coming back to him and saying I was agitating them." [2171] The student concluded: "In so many ways I feel like my life's dream has been ripped right out of my hands." [2172] Another ITT student complained, "my biggest bone of contention with ITT is that oftentimes just when you need a little help with a course, no one is available to assist you." [2173]

Career Services

For-profit schools promote themselves as career-oriented skill-focused places. Indeed, much of for-profit education advertising focuses on "getting the job" after graduating from school. Complaints help to illustrate student concerns with the career services offered by ITT. A former ITT student wrote to the Chairman expressing similar frustrations at his school. "After graduating with highest honors (3.85 GPA), ITT did not get me a single interview. . . . The job packet they would give you was full of fake jobs, after becoming unemployed a couple of years after graduating ITT, I went to the campus and grabbed a job packet and it had the same jobs as it did two years earlier." [2174] Another ITT student filed a complaint stating that, "During a discussion with Career Services they wanted me to register a business so that they could have 100% placement for this class." [2175]

A different student complained, "I also want to bring up your career services and recruiters! Your recruiters guarantee ITT will find you a job. Wrong! That is false advertisement," and added that "your school robbed me blind and the fact that your name is now on my resume employers won't even look at me!" [2176] The father of another student complained, "The whole experience is suppose to be exciting and filled with hopes for the future [sic]. Instead it has been turned in to an exhausting nightmare that he can't wait to get out of. The career department is suppose to be guiding him through putting his resume on line and trying to help him find work in his field of interest [sic]. This has not been happening, due to him being told they are understaffed and overly busy" [2177]

A recent news report described a former ITT student with more than $30,000 in debt who has been unable to find a job he qualifies for in his field that offers more than the minimum wage.[2178] According to the student's mother "I don't [know] where he'd get a job with the education they gave him making enough to pay the loans to survive." [2179] The student added, "I feel like I've been ripped off. I'm embarrassed to tell people I went to that school." [2180]

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their students have parents with an associate degree or higher, compared to 46 percent at private non-profits, and 52 percent at public schools.

[2170] ITT Educational Services Internal Email, January 21, 2010, re: *Gross Drop Attrition-Response needed by this Friday 1/22* (ITT-0014496).

[2171] ITT Educational Services, Letter from Student to Mr. Clark (ITT-00004357 at ITT-00004358).

[2172] Id., at ITT-00004359

[2173] ITT Educational Services Student Email, May 14, 2008, re: *SPF-064-General Comment* (ITT-00007386).

[2174] Letter from Steven Gossman, April 9, 2011.

[2175] ITT Educational Services, Description for Complaint ID #5014171 and Settlement Explanation (ITT-00005144, at ITT-00005148).

[2176] ITT Educational Services Internal Email, May 16, 2006, re: *Complaint* (ITT-00005047 at 47,49).

[2177] ITT Educational Services Internal Email, January 10, 2007, re: *FW: Immediate Attention Required* (redaction) (ITT-00005216, at ITT-00005220).

[2178] Jeff Chirico, "Questions Raised about state's oversight of for-profit colleges," *CBS Atlanta*,. Jeff Chirico May 10, 2012, http://www.cbsatlanta.com/story/18254503/questions-raised-over-states-oversight-of-for-profit-colleges (accessed June 14, 2012).

[2179] Id.

[2180] Id.

Internal documents from ITT illustrate the flexible definition schools use to determine whether students are employed in their field. ITT's procedure manual defines work in a "related field" as requiring only "20-49% of time spent on the job using the skills taught in the core courses" of a student's program.[2181] ITT's "FAQs on Employment Classification" asks whether working at "a Blockbuster or an electronics department that sells video games" counts as a related field placement for their digital entertainment and game design program.[2182] The answer provided was "Blockbuster, GameStop, and other video/game store employments are not black and white and require a significant amount of analysis, thought, and documentation." [2183] This raises the question as to whether students would knowingly take on obligations of $50,000 to $100,000 in student debt to be employed in a retail job.

Regulatory Strategies

For profit education companies are subject to two key regulatory provisions: (1) that no more than 90 percent of revenues come from title IV Federal financial aid programs, and (2) that no more than 25 percent of students default within 2 years of entering loan repayment. As discussed above, some companies, including ITT, lower their reported default rates by placing students in forbearances and deferments to delay default. Moreover, many schools employ a variety of tactics to meet the requirement that no more than 90 percent of revenues come from title IV Federal financial aid programs.

In addition to the creation of the PEAKs program and pursuing military servicemembers and veterans, both of which are discussed above, other 90/10 tactics ITT employs include manipulation of campus identifiers (OPEIDs) and the creation of scholarship programs.

For-profit colleges must report their 90/10 ratio by assigned Office of Postsecondary Education ID numbers (OPEID), rather than by campus or corporate owner. Many education companies, including ITT, have many assigned OPEIDs. One OPEID may consist of a main campus and multiple branch campuses. Schools with multiple OPEID numbers can shift campuses to different OPEID numbers and classify them as branches even when they are many States apart. ITT recently merged their 29 separate OPEID numbers into three. According to the CEO of ITT:

> the reasons for doing that certainly relate to our compliance efforts and risk mitigation associated with all of the different regulatory controls … So, this impacts your CDR, your 90/10 and all those other metrics that exists, including any new metrics that may come our way as a result of regulatory change.[2184]

Department of Education regulations dictate that scholarships awarded to a student do not count as Federal financial aid, and instead count as other institutional charges on the "10" side of the 90/10 calculation. However, the regulations also require that the scholarships be awarded by an organization independent of the school. This independence requirement prevents schools from subverting the 90/10 rule by simply recycling Federal student aid money to award scholarships that count on the "10" side. However, several companies that operate for-profit colleges have designed scholarship programs that appear to be awarded by outside non-profit organizations, but where evidence suggests that control of the scholarship program comes from within the company. In these cases, the money used to fund the

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[2181] ITT Educational Services, April 29, 2010, *Career Services Graduate Employment Definitions: CS-2 Procedure Manual* (ITT-00065475).
[2182] ITT Educational Services, *FAQs on Employment Classification* (ITT-00065499, at 65501).
[2183] Id.
[2184] ITT Educational Services, "ITT at Barclays Capital Inc Global Services Conference," *Lexis Nexis*, May 12, 2011.

scholarship comes from sources connected to the school, and the awards are only given to students at that particular school.

ITT created the “Champagne Scholarship,” a “new scholarship named for and funded by [the company’s] previous Chief Executive Officer, Renee Champagne.”[2185] A Champagne scholarship is an award of $3,000 available for students who are enrolled full-time with a $0 expected family contribution.[2186] A former employee who has spoken publicly about her experience stated that nearly every student who applied received the scholarship.[2187] Documents indicate that the company closely tracked the number of Champagne Scholarships awarded by campus.[2188] Over the course of a year, the company planned to award a total of $21 million in scholarships. That amount is enough to move ITT’s overall 90/10 ratio by more than 1 percent, a significant amount if a school were to be in danger of exceeding 90 percent.

Enforcement Actions

In 2005, ITT paid $730,000 to settle a lawsuit with the State of California in which employees charged that the company had inflated students grade point averages so that they qualified for more financial aid from the State of California.[2189] California’s Cal Grant program requires students to have a certain grade point average to be eligible for financial aid. ITT acknowledged that their actions resulted in 49 students receiving larger financial aid awards through the State Cal Grant program than they otherwise would have received.[2190]

On May 18, 2012, ITT received a Civil Investigative Demand from the U.S. Consumer Financial Protection Bureau.[2191] The purpose of the investigation is, in part, “to determine whether for-profit postsecondary companies, student loan origination and servicing providers, or other unnamed persons have engaged or are engaging in unlawful acts or practices relating to the advertising, marketing, or origination of private student loans.”[2192]

Conclusion

ITT is one of the most expensive companies examined by the committee, and it is not clear that the value of the education justifies the cost. The cost of attending ITT is so high that the company has created its own loan program to enable students to borrow money in excess of Federal lending limits. While the retention rates for both the Associate and the Bachelor’s program are slightly better than average, the company has a high rate of student loan default, with 26 percent of students defaulting within 3 years of entering repayment. This likely reflects the high cost of the programs offered, and an

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[2185] ITT Educational Services, *Champagne Scholarship Fund* (ITT-00060529); See also ITT Educational Services, July 24, 2009, *ITT Technical Institutes Scholarship Update* (ITT-00052388).
[2186] ITT Educational Services, *Champagne Scholarship Application* (ITT-00003045).
[2187] Rashidah Smallwood interview with HELP Committee staff.
[2188] ITT Educational Services, September 29, 2009, *Q3 Financial Aid Update* (ITT-00060728).
[2189] Doug Lederman, “ITT, Calif. Settle False Claims Lawsuit, *Inside Higher Ed.,* October 18, 2005, http://www.insidehighered.com/news/2005/10/18/itt (accessed June 14, 2012).
[2190] ITT Educational Services, ITT 8-K SEC Form, September 30, 2005, http://www.secinfo.com/ds4r4.z1z.htm (accessed June 14, 2012).
[2191] ITT Educational Services, ITT 8-K SEC Form, May 22, 2012, http://google.brand.edgar-online.com/default.aspx?companyid=4807 (accessed June 14, 2012).
[2192] Id.

inability on the part of some students to find jobs that allow them to repay the debt they incur. The company makes this work by utilizing some of the most disturbing recruiting tactics among the companies examined, and by taking very creative approaches to complying with the 90/10 limitation on revenue received from Federal financial aid programs. Meanwhile, the company devotes the largest share of revenue to profit of any company analyzed at 37 percent. Taken together, these issues cast serious doubt on the notion that ITT's students are receiving an education that affords them adequate value relative to the cost, and calls into question the $1.1 billion investment American taxpayers made in the company in 2010.