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Congress of the United States
House of Representatives
Washington, DC 20515-0514

May 15, 2015

The Honorable Arne Duncan
Secretary of Education
U.S. Department of Education
400 Maryland Ave, SW
Washington, D.C. 20202

Dear Secretary Duncan:

I am writing to strongly urge the U.S. Department of Education (ED) to conduct an investigation of and exercise increased oversight over the for-profit college operator ITT Educational Services, Inc. This company has engaged in deceptive and predatory lending practices, pushing students into high-interest loans they know cannot be repaid, at vast taxpayer expense.

ITT Educational Services (ITT) is one of the largest operators of for-profit colleges in the United States. ITT has more than 140 institutions in 39 states, as well as an extensive online teaching operation. Its schools have been plagued with large cohort default rates (CDRs), nearly twice the national average.¹ In fact, from 2009-2010, 45 ITT schools had a higher CDR than their graduation rate. These students become saddled with unforgivable debt, and their inability to repay it ruins them and their future job prospects while harming taxpayers who are saddled with the bill.

In 2010, ITT reported 65.9 percent of its revenue came from all federal aid programs.² Only two years later, this rose to 80 percent of their revenue.³ While they are ostensibly still 10 percent below the limit set under the "90-10 Rule," which requires for-profit colleges to receive no more than 90 percent of their revenue from federal student aid programs, a large proportion of the remaining 20 percent of private loans were made through predatory lending programs run by ITT Educational Services. These practices have led to charges filed by multiple federal agencies.

The Securities and Exchange Commission (SEC) filed charges on May 12, 2015 alleging that that the CEO and CFO of ITT Educational Services covered up ballooning loan obligations stemming from the company's "PEAKS" and "CUSO" loan programs.⁴ These programs provided zero-interest loans to new students as "temporary credit", which had to be paid in full at the end of the student's first academic year. When students could not fulfill this debt obligation, ITT then steered students into a new, high-interest loan to repay that first-year debt and begin the second-year payment.

¹ Three-year Official Cohort Default Rates for Schools. U.S. Department of Education. <http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html>

² Senate Health, Education, Labor, and Pensions Committee. ITT Educational Services. http://www.help.senate.gov/imo/media/for_profit_report/PartII/ITT.pdf

³ Inspecting a Student Loan Spigot. NY Times. January 18, 2014. <http://www.nytimes.com/2014/01/19/business/inspecting-a-student-loan-spigot.html>

⁴ SEC Announces Fraud Charges Against ITT Educational Services. May 12, 2015. <http://www.sec.gov/news/pressrelease/2015-86.html>

ITT created these predatory lending programs using private money – for PEAKS it was private investors forming a trust, for CUSO it was a group of credit unions – to avoid disqualification for federal funding under the “90/10 Rule”. To attract investors, ITT guaranteed repayment of these loans. With their high CDRs, ITT began to run up against its loan obligations. According to a government report, ITT Tech internally projected a 64 percent default rate for private loans in 2011, meaning they made these loans knowing a majority of borrowers would be unable to pay.⁵ As the SEC alleges, “[r]ather than disclosing to its investors that it projected paying hundreds of millions of dollars on its guarantees, ITT and its management took a variety of actions to create the appearance that ITT’s exposure to these programs was much more limited.”⁶ In reality, ITT is the guarantor of these loans, and will pay the price for their high CDRs.

ITT Educational Services’ legal troubles aren’t recent news. The Consumer Financial Protection Bureau (CFPB) has filed a lawsuit against ITT in early 2014, accusing the chain of predatory student lending related to their “temporary credit” programs.⁷ With this history of predatory lending and high CDRs, the U.S. Department of Education has a responsibility to step in.

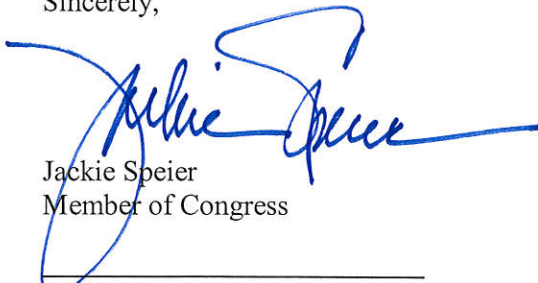
The Department of Education has conducted increased oversight and exercised enforcement options in the past, as it did with the Corinthian Colleges, Inc., however those investigations have been plagued with delays. In fact, Corinthian Colleges, Inc. was investigated by the SEC in June 2013⁸ – a full year before ED opened their own June 2014 investigation following “concerns that Corinthian was using false and misleading job placement data to market its schools and recruit students, and that it might be changing student grade and attendance data to hide performance problems.”⁹ This delay harmed students who continued to take loans on a worthless education, and taxpayers who footed the bill. I ask that in this case you take action quickly and responsibly.

As the official responsible for overseeing the for-profit college sector at ED, I call upon you to:

1. Investigate the lending practices, cohort default rates (CDRs), and compliance with gainful employment regulations of ITT Educational Service-run for-profit colleges.
2. Conduct active oversight and exercise enforcement options to safeguard students and taxpayers.

Thank you for your speedy attention to this matter. I look forward to your response.

Sincerely,



Jackie Speier
Member of Congress

⁵ CFPB Sues For-Profit College Chain ITT For Predatory Lending. February 26, 2014.

<http://www.consumerfinance.gov/newsroom/cfpb-sues-for-profit-college-chain-itt-for-predatory-lending/>

⁶ SEC Announces Fraud Charges Against ITT Educational Services. May 12, 2015. <http://www.sec.gov/news/pressrelease/2015-86.html>

⁷ CFPB Sues For-Profit College Chain ITT For Predatory Lending. February 26, 2014.

<http://www.consumerfinance.gov/newsroom/cfpb-sues-for-profit-college-chain-itt-for-predatory-lending/>

⁸ Corinthian Falls After SEC Starts Probe on Recruitment. Bloomberg. June 13, 2013.

<http://www.bloomberg.com/news/articles/2013-06-10/corinthian-colleges-shares-fall-after-sec-begins-investigation>

⁹ Working to Protect Students and Borrowers as Corinthian Colleges Ceases Operation

<http://www.ed.gov/blog/2015/04/working-to-protect-students-and-borrowers-as-corinthian-colleges-ceases-operation/>