



August 25, 2016

Kevin M. Modany, CEO
ITT Educational Services, Inc.
13000 North Meridian Street
Indianapolis, IN 46032-1404

RE: Provisional/LOC Alternative
OPE IDs: 00732900 – ITT Technical Institute
03071800 – ITT Technical Institute
00473100 – Daniel Webster College

Dear Mr. Modany:

On August 19, 2014, ITT Educational Services, Inc., (ITT) was cited by the U.S. Department of Education (Department) for its late submission of annual compliance audits and audited financial statements. As a result of this financial responsibility failure, 34 C.F.R. §668.174(a)(3), and beginning in October 2014, the Department permitted schools owned and operated by ITT to participate in the Title IV, HEA programs only under a Provisional Program Participation Agreement (PPPA) for three award years. As a further result of this financial responsibility failure, in August 2014, the Department also required ITT to post an irrevocable, five-year Letter of Credit (LOC) in the amount of \$79,707,879.

Since August 2014, the Department has been actively monitoring ITT's ongoing operations and finances. We have also been continuing to monitor civil litigation filed against ITT by federal and state law enforcement agencies. Moreover, on April 22, 2016 the Department received notification that ITT institutions operating under the Indianapolis, IN and Spokane Valley, WA OPEIDs received a Show-Cause Directive Letter ("Directive") dated April 20, 2016 from ITT's accreditor, the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS directed ITT to show cause why its grants of accreditation should not be withdrawn by suspension or otherwise conditioned.

On June 6, 2016, the Department issued a letter to ITT, wherein the Department both summarized the bases cited by ACICS in its April 20, 2016 directive and described the increased financial risk to the Department, Title IV funds, students, and taxpayers posed by potential ACICS action. As described in the June 6 letter, the Department then required ITT to increase its surety from \$79,707,879 to \$123,646,182. In July 2016, the Department permitted ITT to provide the increased surety in three installments of \$14,646,101 on July 20, 2016, September 30, 2016, and November 30, 2016.

On August 4, 2016 ACICS held the hearing regarding the show cause imposed on ITT Technical Institutes in Indianapolis, IN and Spokane Valley, WA. On August 17, 2016, ACICS informed the Department that ACICS continued both institutions on Show Cause after ITT had submitted information requested by the accrediting agency and participated in the hearing.

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

Federal Student Aid, Multi-Regional and Foreign School Participation Division
830 First Street NE, Union Center Plaza, 7th Floor, Washington, DC 20202-5340
www.FederalStudentAid.ed.gov

The August 17, 2016 Continue Show-Cause Directive Letter (“Continue Directive”) continues to question ITT’s compliance with a number of ACICS accreditation standards, finding that ITT has not demonstrated full compliance. The standards in question are these:

1-2-100(f): the “minimal eligibility requirements” for “compliance with all applicable laws and regulations;”

2-1-809: requirements for student achievement, as measured by retention, placement, and licensure passage rate. Normally, an institution must comply with such standards within a year after being found out of compliance; ACICS questioned ITT’s compliance for a period of at least two years;

3-1-202(a): institutional integrity, as manifest in the efficiency and effectiveness of its overall administration of the institution;

3-1-204: financial stability, including having adequate revenues and assets to meet its responsibilities;

3-1-300: administrative capacity, including overall management and record-keeping;

3-1-410: ACICS admissions and recruitment standards; and

3-1-434: federal and state student financial aid administration requirements.

The specific information that ACICS cites in its August 17 Continue Directive continues the concerns that the agency expressed in its April 20, 2016 Show-Cause Directive Letter with respect to the first three grounds expressed in the April 20 letter. It no longer expresses concerns about the quality of instructional materials or development and submission of a teach-out plan. However, its on-going investigation has caused ACICS to add two more concerns which are at the foundation of the educational enterprise and therefore to the actions that the Department must take. The August 17 Continue Directive reiterates ACICS’ concern about the financial stability of ITT by noting ITT has an assets to liabilities ratio of 0.72. It also noted the below-standard student achievement outcomes reported for retention rates for eight campuses including the main Indianapolis campus, for both the 2014 and the 2015 years.

According to the ACICS Accreditation Criteria, the Show-Cause Directive is issued “[w]hen the Council determines that an institution is not in compliance, and is unlikely to become in compliance, with the Accreditation Criteria.” (Standards Section 2-3-230). Because ACICS has determined, after ITT presented information in response to the Show-Cause Directive and participated in a hearing, that ITT is “not in compliance” and is “unlikely to become in compliance” with ACICS Accreditation Criteria, ITT has therefore failed to “meet the requirements established” by its accreditor, as is required by its PPPA.

In addition, on June 24, 2016, the National Advisory Council on Institutional Quality and Integrity (NACIQI) recommended to the Department that it not re-recognize ITT’s accreditation agency.

Should the Senior Department Official and the Secretary agree, ITT would need to find a new accreditation agency to remain eligible for Title IV funds.

As a direct result of the facts described above, and as further detailed in the Department's letters dated August 19, 2014, August 21, 2014, May 20, 2015, June 8, 2015, October 19, 2015, December 10, 2015, June 6, 2016, and July 6, 2016 the Department is hereby imposing the following conditions on ITT's continued participation in Title IV, HEA programs.

1. Increased Letter of Credit/Surety

Due to this increased risk of the actions taken by ACICS regarding ITT the Department has determined the surety on file must be increased from the current \$94,353,980 to \$247,292,364. This amount represents 40% of the Title IV, HEA program funds received by the Institution during its most recently completed fiscal year.

The purpose of a Letter of Credit (LOC) is to allow for meeting liabilities that would be owed to the Department, such as those that may trigger should the institution precipitously close or terminate classes at other than the end of an academic period. The LOC assures the Secretary that funds would be available from which to make refunds, provide teach-out facilities, and meet institutional obligations to the Department.

In the Department's July 6, 2016 letter, ITT was required to post \$43,938,303 over three (3) installments of \$14,646,101 on July 20, 2016, September 30, 2016, and November 30, 2016. On July 20, 2016 ITT submitted to the Department the first installment of \$14,646,101 and currently has on file surety in the amount of \$94,353,980. The Department is requiring that ITT post an additional \$152,938,654 within 30-days from the date of this letter.

2. Change to Method of Payment Requirements (HCM2)

Effective immediately, ITT Technical Institutes operating the Indianapolis, IN and Spokane Valley, WA OPEIDs are required to make all Title IV program fund disbursements under the Heightened Cash Monitoring 2 (HCM2) payment method, as described in 34 C.F.R. § 668.162(e). The Department reserves the right to offset any federal claims against funds due to both institutions. ITT will receive additional information regarding HCM2 under a separate cover.

3. Notification Requirements for Oversight or Financial Events

Consistent with prior communications, ITT remains required to provide information to the Department by certified mail or electronic or facsimile transmission no later than 10 days after any of the oversight or financial events, as described below, occur. ITT must also include with the information it submits, written notice that details the circumstances surrounding the event(s) and, if necessary, what steps it has taken or plans to take, to resolve the issue. These events include:

- Any adverse action, including probation or similar action, taken against the Institution by its accrediting agency, State authorizing agencies or other Federal agency;
- Any event that causes the Institution, or related entity as defined in the Statement of Financial Accounting Standards (SFAS) 57, to realize any liability that was noted as a

contingent liability in the Institution's or related entity's most recent audited financial statements;

- Any violation by the Institution of any loan agreement;
- Any failure of the Institution to make a payment in accordance with its debt obligations that results in a creditor filing suit to recover funds under those obligations;
- Any withdrawal of owner's equity/net assets from the Institution by any means, including by declaring a dividend;
- Any extraordinary losses as defined in accordance with Accounting Principles Board (APB) Opinion No. 30; or
- Any filing of a petition by the Institution for relief in bankruptcy court.

4. Additional Reporting Requirements

In order for the Department to monitor ITT's progress in improving the Institution's financial stability, ITT must continue to provide information about its operations, finances, and future plans as described in letters dated May 20, 2015, June 08, 2015, and October 19, 2015 letters, and any oral or written modifications to those communications. Please continue to submit the additional reporting documents to the designated contact(s) outlined in the Department's prior communications.

5. Additional Operational Requirements

As a further condition of maintaining its certification to participate in Title IV programs, ITT must adhere to the following requirements, effective immediately:

- ITT Technical Institutes in Indianapolis, IN and Spokane Valley, WA are restricted from enrolling or beginning classes for any new students who may receive Title IV, HEA program funds;
- ITT Technical Institutes operating under the Indianapolis, IN and Spokane Valley, WA OPEIDs must provide all students with a notice disclosing the ACICS Directive and Continue Directive including the fact that ACICS accreditation standards state that the "Council determines that [the] institution is not in compliance with the Accreditation Criteria, and is unlikely to become in compliance."
- ITT Technical Institutes in Indianapolis, IN and Spokane Valley, WA must provide to the Department within 30 days of its receipt of this letter teach out agreements for all ITT campuses and locations operating under OPEIDs 00732900 and 03071800.
- ITT will not pay, or agree to pay, any bonuses, severance payments, raises or retention payments to any of its Management or Directors, as so listed in the Corporate Governance section of the ITT Technical Institute website, at ITTESI.com, as of August 23, 2016, nor to pay special dividends, nor to make any expenditures out of the ordinary course of business and consistent with prior practice, without separate approval from the Department.

ITT's failure to meet any of these requirements will demonstrate to the Department that ITT is incapable of meeting the fiduciary and financial responsibility standards established by the Higher

Education Act and the Department's regulations. Accordingly, the failure to meet these standards will result in the referral of this matter to the Administrative Actions and Appeals Service Group for administrative action, including the potential revocation of the PPAs for the affected OPEIDs.

By signing below, the institution acknowledges and agrees to the conditions specified in this letter, which must be returned no later than 12:00 p.m. (noon) Eastern Time, September 6, 2016.

(Name) (Title) (Date)

Surety Requirements

The increased surety is necessary in the event that the Institution would close or terminate classes at other than the end of an academic period. It assures the Secretary that funds would be available from which to make refunds provide teach-out facilities and meet institutional obligations to the Department.

Our records indicate that ITT already has surety on file in a Federal Holding Account with the Department for \$94,353,980 until November 04, 2019. ITT may provide the increased amount by Federal Wire Transfer, or can provide a new LOC in the amount of \$152,938,654. ITT should advise the Department within 10 days of its receipt of this letter whether it will increase the funds maintained in the Department's Federal Holding Account, or provide a letter of credit for that additional amount. The increased surety must be provided under either option within 30 days from the date of this letter.

A sample irrevocable letter of credit is enclosed for ITT to use if it chooses that option. The ITT letter of credit must be issued by a United States bank. Your lending institution must use this format on its letterhead with no deviation in the language contained therein. The letter of credit must provide coverage until November 04, 2019. Please note that if ITT fails to provide the irrevocable letter of credit within 45 calendar days the institution may be referred to the Department's Administrative Actions and Appeals Service Group (AAASG) office for termination and/or other administrative action under 34 C.F.R. § 668.86. Also, note that information regarding the financial analysis score, results, and the LOC is subject to the Freedom of Information Act (FOIA) of 1966, as amended.

Please mail the irrevocable letter of credit to the following address:

Veronica Pickett, Director
Performance Improvement and Procedures Service Group
U.S. Department of Education
Federal Student Aid/Program Compliance

830 First Street, NE, UCP3, MS 5435
Washington, DC 20002-8019

ITT is required to notify the SPD within 3 calendar days, in the event the LOC issuing institution should fail, resulting in financial transactions and operations being administered by the Federal Deposit Insurance Corporation. ITT will also be required to submit a new replacement LOC issued by a different and non-failed U.S. bank, within 75 calendar days.

If you have any questions regarding the financial responsibility determination, or disagree with the reason or methodology used for this determination, please contact Tiffany Hill, Financial Analyst, within 10 calendar days at (202) 377-4225.

Sincerely,


Ron Bennett
Director, School Eligibility Service Group

Enclosures: The Department's August 19, 2014 Letter to ITT
The Department's August 21, 2014 Letter to ITT
The Department's May 20, 2015 Letter to ITT
The Department's June 08, 2015 Letter to ITT
The Department's October 19, 2015 Letter to ITT
The Department's December 10, 2015 Letter to ITT
The Department's June 6, 2016 Letter to ITT
The Department's July 6, 2016 Letter to ITT

cc: Kevin M. Modany, Chief Executive Officer (kmodany@ittesi.com)
Rocco Tarasi III, Chief Financial Officer (rtarasi@itt-tech.edu)
Michael E. Diffily, Daniel Webster College President (diffily@dwc.edu)
New England Association of Schools and Colleges – CHE (Higher Education)
Accrediting Council for Independent Colleges and Schools
WA Student Achievement
Texas Work Force Commission
PA Division of Private License Schools, Bureau of Postsecondary Services
PA Division of Program Approval Bureau of Academic Programs
AL Commission on Higher Education
Arkansas Department of Higher Education
Colorado Commission on Higher Education
Commission for Independent Education – Florida Department of Education
ID State Board of Education
MO Coordinating Board for Higher Education
TX Higher Education Coordinating Board
Maryland Higher Education Commission
WV Council for Community and Technical College Education

State Council of Higher Education for Virginia
Minnesota Office of Higher Education
NM Higher Education Department
AL Department of Postsecondary Education
AZ State Board for Private Postsecondary Education
NE Department of Education
SC Commission on Higher Education
OH Board of Regents
CA Bureau for Private Postsecondary Education
MA Department of Higher Education (formerly MA Board of Higher Edu)
Michigan Department of Labor & Economic Growth
Louisiana State Board of Regents
Iowa College Student Aid Commission
NY The State Education Department, Office of Higher Education
NV Commission on Postsecondary Education
Oregon Student Assistance Commission Office of Degree Authorization
KY Council on Postsecondary Education
Tennessee Higher Education Commission
GA Non-Public Postsecondary Education Commission
The Board of Governors of the University of NC
WI Educational Approval Board
UT System of Higher Education
MS Commission on Proprietary School & College Registration
Ohio State Board of Career Colleges and Schools
Oklahoma State Regents for Higher Education
Illinois Board of Higher Education
KS Board of Regents
NJ Commission on Higher Education
Indiana Commission for Higher Education Board for Proprietary Education
NH Dept. of Education, Division of Higher Education