



Bureau for Private Postsecondary Education
2535 Capitol Oaks Drive, Suite 400, Sacramento, CA 95833
P.O. Box 980818, West Sacramento, CA 95798-0818
P (916) 431-6959 F (916) 263-1897 www.bppe.ca.gov



NOTICE OF EMERGENCY DECISION

August 26, 2016

VIA EMAIL, FAX AND OVERNIGHT DELIVERY

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

kmodany@ittesi.com

Pursuant to California Code of Regulations, Title 5, section 75150, subdivision (d) and Government Code section 11460.40, the Bureau for Private Postsecondary Education (Bureau) hereby notifies ITT Educational Services, Inc. and any of its subsidiaries that operate ITT Technical Institute locations in California (Institution), that upon close of business on September 1, 2016 the attached Emergency Decision will become effective. The Emergency Decision will order the Institution to **CEASE ENROLLMENT OF ANY NEW STUDENTS IN ALL PROGRAMS** at all of the following 15 locations:

ITT Technical Institute

1. **School Code: 44971351**
362 North Clovis Avenue
Clovis, CA 93612

2. **School Code: 66733893**
1140 Galaxy Way, Suite 400
Concord, CA 94520

3. **School Code: 32243734**
4160 Temescal Canyon Road, Suite 100
Corona, CA 92883

4. **School Code: 3901451**
16916 S. Harlan Road
Lathrop, CA 95330

5. **School Code: 91554400**

1200 Clay Street, Suite 200
Oakland, CA 94612

ITT Technical Institute – Orange

6. **School Code: 3004931**

4000. Metropolitan Drive, Suite 100
Orange, CA 92868

ITT Technical Institute Oxnard

7. **School Code: 5601571**

2051 North Solar Drive
Oxnard, CA 93030

ITT Technical Institute Rancho Cordova

8. **School Code: 3400531**

10863 Gold Center Drive
Rancho Cordova, CA 95670

ITT Technical Institute San Bernardino

9. **School Code: 3602131**

670 East Carnegie Drive
San Bernardino, CA 92408

ITT Technical Institute San Diego

10. **School Code: 3703911**

401 Mile of Cars Way, Suite 100
National City, CA 91950

ITT Technical Institute San Dimas

11. **School Code: 1909091**

650 West Cienega Avenue
San Dimas, CA 91773

ITT Technical Institute Sylmar

12. School Code: 1900961

12669 Encinitas Avenue
Sylmar, CA 91342

ITT Technical Institute Torrance

13. School Code: 1916401

2555 West 190th Street, Suite 125
Torrance, CA 90504

14. School Code: 46576621 (Satellite)

19800 South Vermont Avenue
Torrance, CA 90502

ITT Technical Institute Vista

15. School Code: 48441864

440 South Melrose Drive, Suite 100
Vista, CA 92801

You have the right to be heard before the Director of the Department of Consumer Affairs, or his designee, regarding the allegations in the Emergency Decision prior to the effective date of the Emergency Decision. If you would like to be heard before the Director, please submit a request by fax to Elainea Shotwell, Enforcement Manager, Bureau for Private Postsecondary Education, 2535 Capitol Oaks Drive, Suite 400, Sacramento, CA 95833, (916) 263-1895 (fax). Alternatively, you may request a hearing before the Director, or his designee, by telephoning Elainea Shotwell at (916) 246-3910. Unless the Bureau receives your request by **5:00 p.m. on August 30, 2016** you will be deemed to have waived your right to be heard before the Director, or his designee.

If requested, the hearing before the Director of the Department of Consumer Affairs, or his designee, will be held on **August 31, 2016 at 12:00 p.m.** at the Department of Consumer Affairs Executive Office, located at 1625 North Market Blvd., Suite S-308, Sacramento, CA 95834.

Within 10 days after issuance of the Emergency Decision, the Bureau will file an Accusation on the charges and allegations set forth in the Emergency Decision. The adjudicative proceedings shall be conducted in accordance with Article 10 (commencing with Section 11445.10) of Chapter 4.5 or Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, as requested by you.

Upon issuance of the Emergency Decision, you have the right under Government Code section 11460.80 to obtain judicial review of the Decision.

The Emergency Decision shall remain in effect until such time as the Accusation has been fully adjudicated or upon issuance of the final decision following judicial review.



Joanne Wenzel, Bureau Chief
Bureau for Private Postsecondary Education

8/26/16
Date



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EMERGENCY DECISION

August 26, 2016

VIA E-MAIL, FAX AND OVERNIGHT DELIVERY

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

kmodany@ittesi.com

Pursuant to California Education Code section 94938, California Code of Regulations, Title 5, section 75150, and article 13 (commencing with section 11460.10) of Chapter 4.5 of Part 1 of Division 3 of Title 2 of the Government Code, the Bureau for Private Postsecondary Education (Bureau) issues the following Emergency Decision:

The Bureau hereby orders ITT Educational Services, Inc. and any of its subsidiaries that operate ITT Technical Institute locations in California (Institution) to **CEASE ENROLLMENT OF ANY NEW STUDENTS IN ALL PROGRAMS** at all of the following 15 locations **effective upon close of business September 1, 2016:**

ITT Technical Institute

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Clovis, CA 93612
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1140 Galaxy Way, Suite 400
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4000. Metropolitan Drive, Suite 100
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19800 South Vermont Avenue
Torrance, CA 90502

ITT Technical Institute Vista

15. School Code: 48441864

440 South Melrose Drive, Suite 100
Vista, CA 92801

This order is based on an immediate danger to the public health, safety, and welfare. Specifically, the Bureau has determined that:

- As set forth in the attached Declaration of Yvette Johnson, there is a substantial failure by the Institution to meet institutional minimum operating standards related to financial resources and accreditation standards as required by the California Private Postsecondary Education Act of 2009 and the California Code of Regulations, Title 5, section 71745.

This circumstance requires immediate action by the Bureau to protect students, prevent misrepresentations to the public, and prevent the loss of public funds or monies paid by students.


You have the right to be heard before the Director of the Department of Consumer Affairs, or his designee, regarding the allegations in the Emergency Decision prior to the effective date of the Emergency Decision. If you would like to be heard before the Director, please submit a request by fax to Elainea Shotwell, Enforcement Manager, Bureau for Private Postsecondary Education, 2535 Capitol Oaks Drive, Suite 400, Sacramento, CA 95833, (916) 263-1895 (fax). Alternatively, you may request a hearing before the Director, or his designee, by telephoning Elainea Shotwell at (916) 246-3910. Unless the Bureau receives your request by **5:00 p.m. on August 30, 2016** you will be deemed to have waived your right to be heard before the Director, or his designee.

If requested, the hearing before the Director of the Department of Consumer Affairs, or his designee, will be held on **August 31, 2016 at 12:00 p.m.** at the Department of Consumer Affairs Executive Office, located at 1625 North Market Blvd., Suite S-308, Sacramento, CA 95834.

Within 10 days after issuance of the Emergency Decision, the Bureau will file an Accusation on the charges and allegations set forth in the Emergency Decision. The adjudicative proceedings shall be conducted in accordance with Article 10 (commencing with Section 11445.10) of Chapter 4.5 or Chapter 5 (commencing with Section 11500) of Part 1 of Division 3 of Title 2 of the Government Code, as requested by you.

Upon issuance of the Emergency Decision, you have the right under Government Code section 11460.80 to obtain judicial review of the Decision.

The Emergency Decision, **effective upon close of business September 1, 2016**, shall remain in effect until such time as the Accusation has been fully adjudicated or upon issuance of the final decision following judicial review.



Joanne Wenzel, Bureau Chief
Bureau for Private Postsecondary Education

8/26/16
Date

Declaration of Yvette Johnson

I, Yvette Johnson, declare that if called to testify I would testify competently and relevantly as follows:

1. Since August 2013, I have been the Enforcement Chief for the Bureau for Private Postsecondary Education (Bureau) in the California Department of Consumer Affairs (DCA). My duties include oversight of the Complaint Investigation, Discipline, and Compliance Units within the Bureau. I have personal knowledge of the matters set forth herein.

2. The Bureau has discretion to make an emergency decision to protect the public in the face of immediate danger. California Education Code (Ed. Code) section 94938 states, in part:

“(a) If the bureau determines that it needs to make an emergency decision to protect students, prevent misrepresentation to the public, or prevent the loss of public funds or moneys paid by students, it may do so pursuant to Article 13 (commencing with Section 11460.10) of Chapter 4.5 of Part 1 of Division 3 of Title 2 of the Government Code.”
[Added by Stats. 2009, Ch. 310, §6. (AB 48).]

Title 5, California Code of Regulations Division 7.5, section 75150, states, in part:

“(a) The Bureau may make an emergency decision for temporary, interim relief pursuant to Article 13 (commencing with section 11460.10) of Chapter 4.5 of Part 1 of Division 3 of Title 2 of the Government Code.

(b) The Bureau may make an emergency decision pursuant to subdivision (a) where there is an immediate danger to the public health, safety, or welfare that requires immediate action to protect students, prevent misrepresentations to the public, or prevent the loss of public funds or monies paid by students, including but not limited to fraud; a substantial misrepresentation in the institution's Performance Fact Sheet, school catalog, or enrollment agreement; a substantial failure to meet institutional minimum operating standards; failure to meet statutory and regulatory requirements for accreditation; or a substantial failure to obtain a necessary approval or permit from another agency or regulatory body, affecting public health, safety or welfare.

(c) The Bureau may order temporary, interim relief in the form of some or all of the following measures:

- (1) cease or limit enrollment of new students;
- (2) cease part or all instruction for some or all programs;
- (3) cease collection of tuition or fees for some or all programs.”

3. As set forth below and in the attached exhibits, recent adverse actions by the United States Department of Education (USDOE) and the Accrediting Council for Independent Colleges and Schools (ACICS) against ITT Educational Services, Inc. (ITT), as well as admissions by ITT, demonstrate that there is an immediate danger to the public health, safety, and welfare that warrants an emergency decision. Specifically, the following forms the basis for the Bureau's August 26, 2016, Emergency Decision to prevent ITT from enrolling new students in all programs at its California locations:

a. On October 19, 2015, ITT was notified by the USDOE that the USDOE was imposing additional reporting requirements on ITT in order for the institution to continue participation in Title IV Higher Education Act (HEA) program participation. [Attached as **Exhibit A** is a true and correct copy of a letter that I received and reviewed in my capacity as Enforcement Chief. The letter is from USDOE to ITT Educational Services, Inc.] According to the USDOE's letter, in August 2014, the USDOE cited ITT for its "failure to submit timely an acceptable annual compliance audit and/or audited financial statement for ITT's fiscal year ending December 31, 2013." As a result, ITT was placed on provisional certification for a period of at least five years and required to post an irrevocable letter of credit (LOC) for a period of five years in the amount of 10% of the Title IV funds received by ITT during its most recent completed fiscal year. During its review of ITT, the USDOE found that during the 2009-2010 award year, ITT failed to timely reconcile its Title IV HEA program accounts; that prior to August 27, 2015, ITT had no written policy or procedure in place to for the reconciliation of Title IV funds; and that ITT had requested to reopen prior award years to correct additional reconciliation issues more frequently than other comparable

intuitions. The USDOE found that ITT failed to meet its fiduciary obligations to timely and properly reconcile Title IV program funds and to meet the standards of administrative capability required for an institution to participate in Title IV. ITT also remained on Heightened Cash Monitoring 1 (HCM 1). Under HCM 1, ITT must first make disbursements to eligible students and then request to receive the funds for the amount of the disbursements. Provided the students' accounts are credited properly, the institution can draw down the funds from the USDOE for the amount of the disbursements.

b. In April 2016, ITT's accreditor, the Accrediting Council for Independent Colleges and Schools (ACICS), placed ITT on "Show Cause" stating, among other things: "The nature of the adverse information and ITT's responses to Council requests for information call into question the institutions' administrative capacity, organizational integrity, financial viability and ability to serve students in a manner that complies with ACISC standards." The letter directed ITT to demonstrate to ACICS why ITT should maintain its accreditation. [Attached as **Exhibit B** is a true and correct copy of a letter that I received and reviewed in my capacity as Enforcement Chief. The letter is from ACICS to ITT Educational Services, Inc., dated April 20, 2016]

c. In June 2016, the USDOE required ITT to increase its letter of credit (LOC) an additional 20%. The LOC was increased from \$79,707,879.00 to \$123,646,182.00. In addition, ITT was informed that they would remain on HCM 1 and was required to provide additional information to the USDOE as requested. [Attached as **Exhibit C** is a true and correct copy of a letter that I received and reviewed in my capacity as Enforcement Chief. The letter is from the USDOE to ITT Educational Services, Inc., dated June 6, 2016]

d. On July 12, 2016, the Bureau received and reviewed a copy of ITT's Form 8 K filing

with the United States Securities and Exchange Commission. In the filing, ITT addresses the increase in the amount of money to be held in escrow or a LOC that must be posted with the USDOE. ITT also states that the sanctions imposed on ITT by the USDOE “**could have a material adverse effect on [ITT’s] financial condition, results of operations, cash flows and ability to meet its contractual and regulatory obligations.**” ITT states the additional amount that must be held in escrow or in a LOC “**will have a material adverse effect on [ITT’s] liquidity, and will significantly reduce the amount of cash that will be available for other purposes...**” According to ITT, the “fact that a significant amount of [ITT’s] cash is and will be held in connection with [USDOE’s] requirements **could also negatively affect [ITT’s] ability to satisfy the financial metrics of the [USDOE], state education and professional licensing authorities and the accrediting commission that accredits [ITT’s] institutions.** [Attached as **Exhibit D** is a true and correct copy of Form 8-K, ITT Educational Services Inc. –ESI, filed July 12, 2016. See page 3 for quoted language (Emphasis added.)]

e. On August 25, 2016, the USDOE conducted a telephone conference with the state authorizing agencies for private postsecondary schools, including the bureau (Agencies). The Agencies were notified that the USDOE issued another letter to ITT, dated August 25, 2016, in which ITT is required to increase the letter of credit (LOC) or surety with the USDOE from \$94,353,980.00 to \$247,292,364.00 within 30-days from August 25, 2016. The new amount represents 40% of the Title IV funds received by ITT during the most recently completed fiscal year. With the letter, ITT was also placed on HCM 2, which requires ITT to disburse Title IV funds to students from the institutional funds and then seek reimbursement from USDOE. ITT is also required to continue its notification and reporting requirement with the USDOE. The letter also

referenced ACICS' August 17, 2016, Continue to Show-Cause Director Letter that "continues to question ITT's compliance with a number of ACICS accreditation standards, finding that ITT has not demonstrated full compliance." The USDOE stated that the adverse actions were effective immediately. [Attached as **Exhibit E** is a true and correct copy of the letter from USDOE to ITT Educational Services, Inc., dated August 25, 2016, as well as online public information about the adverse action taken by the USDOE.]

3. As set forth above, on July 12, 2016, ITT admitted in its 8-K filing with the United States Securities and Exchange Commission that the additional funds that had to be posted with the USDOE would negatively impact its ability to do business. With the most recent actions by ACICS (August 17, 2016, Continue to Show-Cause Director Letter), and the USDOE's August 25, 2016, increased financial oversight and directives, the Bureau believes there is now an immediate danger to the public health, safety, or welfare that requires immediate action to protect students, prevent misrepresentations to the public, or prevent the loss of public funds or monies paid by students. The Bureau has a duty to ensure that ITT continues to meet minimum operating standards. The Bureau believes that an emergency decision is necessary to prevent new student enrollments because ITT is not "financially sound and capable of fulfilling its commitments to students" and is not "maintained and operated in compliance with" the Bureau's laws and its accreditor's standards, as required by Ed. Code section 94885.

I declare under penalty of perjury under the laws of the State of California that the above statements are true and correct of my personal knowledge.

Executed this 26th day of August 2016 at Sacramento, California.


YVETTE JOHNSON

Exhibit A



October 19, 2015

Kevin M. Modany
Chief Executive Officer
ITT Educational Services, Inc.
13000 North Meridian Street
Carmel, IN 46032-1404

Re: Additional Reporting Requirements
OPE-IDs: 00732900 – ITT Technical Institute
03071800 – ITT Technical Institute
00473100 – Daniel Webster College

Dear Mr. Modany:

As a result of its heightened review of ITT Educational Services, Inc. (ITT), the U.S. Department of Education (Department) is providing this letter to identify additional procedures that ITT will need to follow in order to continue its participation in Title IV, HEA programs under ITT's current heightened cash monitoring method of payment.

On August 19, 2014, the Department sent you a letter citing ITT for its failure to submit timely an acceptable annual compliance audit and/or audited financial statement submission for ITT's fiscal year ending December 31, 2013. ITT's failure to make this timely submission resulted in the Department imposing a requirement that ITT be provisionally certified for a cumulative period of at least five years, pursuant to 34 C.F.R. § 668.175(f), and that ITT post an irrevocable letter of credit (LOC) for a period of five years in the amount of 10% of the Title IV, HEA program funds received by ITT during its most recently completed fiscal year (approximately \$79.7 million). At that same time, the Department also required ITT to make disbursements to eligible students and parents under the Heightened Cash Monitoring method of payment, as described in 34 C.F.R. § 668.162(e)(1) (HCM1).

Subsequent events since August 2014 – including ITT's failure of the general standards of financial responsibility set forth in 34 C.F.R. Part 668, Subpart L (due to a failing financial composite ratio) and the announcement by the Securities and Exchange Commission of a civil action against ITT and two of its officers – led the Department to impose additional reporting requirements, in order to permit the Department to more closely monitor ITT's ongoing participation in Title IV, HEA programs.

In taking each of the steps noted above, the Department considered – as it has considered again with the issuance of this letter – that as a condition of participation in Title IV, HEA programs, ITT agreed to act as a fiduciary responsible for the administration of federal funds. *See* 34 C.F.R. § 668.14(b)(2). Moreover, in issuing this letter, the Department has again considered that its Cash Management regulations are expressly intended to promote sound cash management of Title IV,

Federal Student Aid

AN OFFICE OF THE U.S. DEPARTMENT OF EDUCATION

Multi-Regional & Foreign Schools Participation Division
Union Center Plaza, 830 First Street, NE, 7th Floor
Washington, DC 20202
StudentAid.gov

HEA program funds by an institution, to minimize the financing costs to the Federal Government of making Title IV, HEA program funds available to a student or an institution, and to minimize the costs that accrue to a student under a Title IV, HEA loan program. 34 C.F.R. § 668.161(a)(1).

RECONCILIATION OF TITLE IV, HEA PROGRAM FUNDS

When a school receives funds pursuant to a Title IV, HEA program, it holds those funds in trust for intended student beneficiaries. As a trustee of, and with a fiduciary responsibility to administer and account for, those funds, a participating institution must have procedures in place that ensure that Title IV funds are used as intended. As described in the Federal Student Aid handbook, a “key component” of compliance with the cash management regulations and the fiduciary standards is the process of reconciliation. Title IV reconciliation is the process by which a school reviews and compares Title IV aid recorded on the Department’s systems with the information in the school’s internal records. Through reconciliation, disbursement and cash discrepancies are identified and resolved in a timely manner to ensure the school meets all regulatory requirements. Schools must document their reconciliation efforts and retain this documentation for auditing purposes.

With respect to the Direct Loan program, institutions are required to reconcile, on a monthly basis, institutional records with Direct Loan funds received from the Department and Direct Loan disbursement records submitted to and accepted by the Department. See 34 C.F.R. § 685.300(b)(5). Institutions are also required to implement a quality assurance system to ensure they are complying with program requirements and meeting program objectives. See 34 C.F.R. § 685.300(b)(9). The quality assurance process should document that the school is completing monthly reconciliation and program year closeout.¹

With respect to the Pell Grant program, FSA has advised participating institutions that, at a minimum, an institution should reconcile FSA financial records at least monthly. See FSA Handbook 2015-16 at 4-92. FSA has also cautioned institutions that, “the more frequently [a] school performs reconciliation, the more likely you will be able to identify issues and resolve them before they become part of a systemic problem.” *Id.* FSA has further cautioned that “it is almost impossible to satisfy other program requirements without performing monthly reconciliation of your school’s Pell Grant Program participation.” *Id.* at 4-96. As further provided in the FSA Handbook:

If a school is meeting all disbursement/adjustment reporting, excess cash, and reconciliation requirements, final reconciliation should begin no later than the last award or payment period end date at the school for a given program and year. A school should be able to reconcile to a zero ending cash balance soon after its final disbursements and should not carry an ending cash balance (positive or negative) for an extended period.

¹ See Electronic Announcement dated November 21, 2014

(<http://ifap.ed.gov/eannouncements/112114DirectLoanProgramReconciliation.html>); Electronic Announcement dated November 13, 2013

(<http://ifap.ed.gov/eannouncements/111313DirectLoanQualityAssuranceRequirementReminder.html>)

2015-16 FSA Handbook at 4-101.

During the course of its heightened oversight of ITT, the Department has reached the following conclusions with respect to ITT's cash management:

1. Since at least the 2009-2010 award year, ITT failed to timely reconcile its Title IV, HEA program accounts;
2. Prior to August 27, 2015, ITT had no written policy or procedure in place to guide the reconciliation of Title IV funds; and
3. ITT has requested to reopen prior award years to correct additional reconciliation issues with a frequency substantially greater than that of comparable institutions.

In addition, in July, August, and September 2015, FSA staff worked with ITT to assist with the reconciliation of Title IV, HEA funds for award years 2009-2010 to present. During that time, ITT provided conflicting information regarding the status of the reconciliation of Pell Grant Award years 2010-11, 2011-12, and 2012-13 (the reconciliation of which should have been completed well before July 2015).

Taken together, these facts demonstrate a failure by ITT to meet its fiduciary obligations, to properly and timely reconcile Title IV program funds as per the regulations and Federal Student Aid guidance, and to meet the standards of administrative capability required of institution's participating in Title IV, HEA programs, *see, e.g.*, 34 C.F.R. §§ 668.16(a), (c)(1).

ADDITIONAL RESTRICTIONS

As a result of the facts set forth above, and as a condition of remaining on the HCM1 payment method, the Department is requiring ITT to take additional steps to identify unearned Title IV HEA funds under ITT's control, and provide additional documentation to the Department regarding Title IV, HEA funds administered and drawn by ITT on behalf of its students.

1. Cash Management / Disbursements

ITT will not be permitted to disburse Title IV funds to students or parents ten days prior to the first day of classes for a payment period, as provided for in 34 C.F.R. § 668.164(f)(1). Effective immediately, ITT may only disburse Title IV funds to a student or and parent once: (i) an academic term has begun; (ii) ITT has confirmed that the student has attended courses sufficient to justify the enrollment status which supports that student's Title IV eligibility; and (iii) ITT provides written confirmation to the Department, using the form and certification attached hereto as Exhibit A (hereinafter "Certification Form"), of the student's eligibility to receive Title IV funds. Certification Forms are to be submitted to the Department no more than once by main OPEID per seven-day period.

ITT must also retain all information on which it relies to substantiate the enrollment status of each student it believes to be eligible to receive Title IV funds. If ITT is unable to document that a student has commenced attendance in a term, it may not disburse funds to the student, and it must

revise the student's Title IV awards in accordance with the Department's published guidance. All other requirements of HCM1, 34 C.F.R. § 668.162(e)(1), shall remain in effect. Moreover, nothing stated in this condition shall change the requirement stated in 34 C.F.R. § 685.303(b)(5).

2. Student Disbursement Reporting

Effective immediately, the Department is modifying the requirements for ITT to submit a monthly enrollment roster. This requirement was established on May 20, 2015 and modified June 18, 2015. In particular, ITT must now include disbursement information when submitting the monthly roster in the format (and with the information requested) shown in the Excel file provided herewith. Additionally, ITT must submit a written certification attesting to the accuracy of that roster, and attesting to ITT's adherence to these requirements. The first roster submitted must include all disbursements and refunds made in the 30 days prior to the submission date of the roster. Each subsequent roster must include all disbursements and refunds made since the submission of the previous roster. Please see enclosed sample Disbursement Roster Spreadsheet.

The certification should be made by an individual with authority to bind ITT, and should state:

By submitting this information, I certify to the best of my knowledge and belief that the information contained herein is true, complete, and accurate. I further certify that ITT Educational Services, Inc. ("ITT") has verified the eligibility of each individual to receive a disbursement of the Title IV funds provided. I further certify that ITT did not disburse Title IV, HEA funds to or for the benefit of any student listed on this roster until ITT had verified that student's attendance in the payment period for which the disbursements was intended. I further certify that ITT is and will remain in compliance with the terms and conditions of the Program Participation Agreement under which these funds have been provided. I am aware that the provision of any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me and/or ITT to criminal, civil, or administrative penalties for fraud, false statements, false claims, or other violations. (U.S. Code Title 18, Section 1001; Title 20, Section 1097; and Title 31, Sections 3729-3730 and 3801-3812).

3. Additional Reporting Requirements

Effective immediately, on the first business day of each month, ITT must provide documentation to substantiate its reconciliation of all Title IV funds drawn as of the last day of the month preceding the month before the submission date. (For example, on November 2, 2015 ITT must submit documentation to substantiate its reconciliation of Title IV funds as of the last day of September, 2015; on December 1, 2015, ITT must submit documentation to substantiate its reconciliation of Title IV funds as of the last day of October, 2015.) The reconciliation documentation must provide evidence that ITT has reconciled the program accounts as described in the Department's publications, including Electronic Announcements dated December 18, 2014

and January 23, 2015.² Please submit such documentation to Byron Scott, Case Manager, via email at Byron.Scott@ed.gov, accompanied by a statement, signed by an individual with authority to bind the company, stating that:

By submitting this information, I certify to the best of my knowledge and belief that the information contained herein is true, complete, and accurate. I further certify that ITT is and will remain in compliance with the terms and conditions of the Program Participation Agreement under which Title IV, HEA funds have been provided. I am aware that the provision of any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me and/or ITT to criminal, civil, or administrative penalties for fraud, false statements, false claims, or other violations. (U.S. Code Title 18, Section 1001; Title 20, Section 1097; and Title 31, Sections 3729-3730 and 3801-3812).

4. Additional Reporting Requirement of Bank Conditions

ITT must submit to the Department a description of any conditions that have been established by any bank or other entity that are related to ITT's participation in the Title IV HEA programs. ITT must promptly supplement this report when any new conditions are established, or when any changes are made to the existing items that have already been reported. Please submit such documentation to Byron Scott, Case Manager, via email at Byron.Scott@ed.gov

5. Additional Reporting of Individuals with Institutional Authority

Within seven days of the date of this letter, ITT must submit to the Department a list of all individuals who have the authority to direct or otherwise control the payment of any "refund[s] of unearned institutional charges" to the Department, as that phrase is used in 20 U.S.C. § 1099c(e)(6)(B). Please submit such documentation to Byron Scott, Case Manager, via email at Byron.Scott@ed.gov

Protection of Personally Identifiable Information (PII):

Because responses to certain of the above conditions will contain PII, please note the following information. PII is any information about an individual that can be used to distinguish or trace an individual's identity (such as name, Social Security number, and date/place of birth). The disclosure of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraud. To protect PII, please see the enclosure Protection of Personally Identifiable Information (PII) for instructions regarding submission of documents containing PII.

² <http://ifap.ed.gov/eannouncements/121814TitleIVAidDisbureRptExcessCashReconciliRequirements.html> and <http://www.ifap.ed.gov/eannouncements/012315FederalPellGrantProgramReconciliation.html>

If you have any questions, please contact Byron Scott, Case Manager, by phone at 312-730-1534 or by email at Byron.Scott@ed.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Frola". The signature is written in a cursive style with a large, looped initial "M".

Michael Frola
Director, Multi-Regional and Foreign School Participation Division

Enclosures:

Example Student Disbursement Roster Certification form (soft copy provided under separate email)
Disbursement Detail and Summary Tracking Spreadsheet
Protection of Personally Identifiable Information

NB: SAMPLE Certification -- To be placed on ITT stationery

DATE: <date>
TO: U.S. Department of Education
FROM: <name>, as an authorized agent and representative of ITT Educational Services, Inc. ("ITT")
SUBJECT: ITT Student Disbursement Roster Certification covering the period <date> through <date>

On behalf of ITT Educational Services, Inc., I certify that, to the best of my knowledge and belief that:

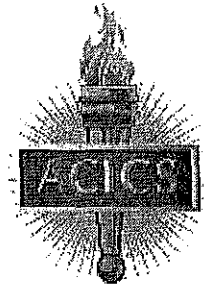
- a) ITT will be making a disbursement of Title IV funds to students or parents on <date>. No disbursements are being made to or for the benefit of any student as to whom ITT has not confirmed that the student has attended courses sufficient to justify the enrollment status which supports that student's Title IV eligibility.
- b) ITT has retained all information on which it relies to substantiate the enrollment status of each student it believes eligible to receive Title IV funds.

By submitting this information, I certify to the best of my knowledge and belief that the information contained herein is true, complete, and accurate. I further certify that ITT has verified the eligibility of each individual to receive a disbursement of the Title IV funds and in the amount provided. I further certify that ITT is and will remain in compliance with the terms and conditions of the Program Participation Agreement under which these funds have been provided. I am aware that the provision of any false, fictitious, or fraudulent information, or the omission of any material fact, may subject me and/or ITT to criminal, civil, or administrative penalties for fraud, false statements, false claims, or other violations. (U.S. Code Title 18, Section 1001; Title 20, Section 1097; and Title 31, Sections 3729-3730 and 3801-3812)

Authorized Signature: _____

Date: _____

Exhibit B



April 20, 2016

VIA E-MAIL AND OVERNIGHT DELIVERY

Mr. Kevin Modany
President and CEO
ITT Educational Services, Inc.
13000 North Meridian Street
Carmel, IN 46032

kmodany@ittesi.com

Dear Mr. Modany:

ITT TECHNICAL INSTITUTE, INDIANAPOLIS, IN
ITT TECHNICAL INSTITUTE, SPOKANE VALLEY, WA

ID CODE 00016040(MC)
ID CODE 00016074(MC)

Subject: Show-Cause Directive Letter

The Council, at its recent meeting, reviewed the responses provided by ITT Educational Services, Inc. (ITT) to multiple sources of adverse information since 2014 regarding a variety of financial and regulatory issues confronting the institutions. As a result of this review, the Council found the following based on the *Accreditation Criteria*:

- The nature of the adverse information and ITT's responses to Council requests for information call into question the institutions' administrative capacity, organizational integrity, financial viability and ability to serve students in a manner that complies with ACICS standards (Sections 1-2-100(f), 3-1-202(a), 3-1-203, 3-1-300, 3-1-410, and 3-1-434)

Specifically, the Council reviewed information from a variety of sources and the institutions' responses in connection with the following items:

- Unresolved civil investigative demands from the attorneys general of Arkansas, Arizona, Colorado, Connecticut, Hawaii, Idaho, Illinois, Iowa, Kentucky, Maryland, Minnesota, Missouri, Nebraska, North Carolina, Oregon, Pennsylvania, Tennessee, Washington and the District of Columbia under the authority of state consumer protection statutes regarding ITT's marketing and advertising; recruitment; financial aid; academic advising; career services; admissions practices; programs; licensure exam pass rates; accreditation; student retention; graduation rates; and job placement performance.

- Unresolved litigation and investigations by the Consumer Financial Protection Bureau, the Securities Exchange Commission and the U.S. Department of Justice for a variety of issues related to the institution's student lending practices and misrepresentations to investors and an alleged violation of the federal False Claims Act.
- The on-going status of ITT's participation in the Federal Student Aid program (Title IV), including the financial implications of the Heightened Cash Monitoring conditions applied to the institutions' access to funds.
- The insufficiency of ITT's response to public and widely-known allegations regarding the quality of instructional materials.
- ITT's failure to comply with the Council directive to develop and submit a plan that provides for the continuation and completion of all students currently enrolled in the event that the institution elects to curtail or suspend operations.

Council Action

Based on its review, the Council determined that the institutions have not demonstrated compliance with the *Accreditation Criteria*. Therefore, the Council directed the institutions, defined as the main campuses and their respective branches, to show cause at the next Council meeting why its current grants of accreditation should not be withdrawn by suspension or otherwise conditioned.

The Council has directed that ITT appear before the Council **in person** at the August 2016 meeting. There is a \$5,000 fee for personal appearances before the Council. This fee is due within ten days of receipt of this notice.

In response to the directive, ITT must submit the following information by **June 15, 2016**:

- Evidence that ITT has investigated and remedied, across the system, any operational or procedural deficiencies regarding compliance with state consumer protection statutes of its marketing, advertising, recruitment and admissions, academic advising and career services activities.
- Evidence that ITT has investigated and remedied any operational or procedural deficiencies, across the system, regarding instructional resources of insufficient quality.

- Evidence that ITT has reviewed and remedied any policy or procedural issues derived from the collection, analysis, reporting and public disclosures of data regarding retention, placement, and graduation rates.
- A full description of the depth and breadth of ITT's efforts to resolve litigation and investigations by the Consumer Financial Protection Bureau regarding the lending practices of the institution.
- A full description of the depth and breadth of the ITT's efforts to resolve of investigations by the Securities and Exchange Commission regarding representations made to investors by ITT senior management.
- A full description of the resolution of the False Claims Act action brought by the U.S. Department of Justice regarding disbursements of public funds made to the institution.
- Evidence that ITT has reviewed and resolved the administrative issues that led to a late financial audit submittal to the U.S. Department of Education and restricted access to cash.
- A full description of the depth and breadth of ITT's efforts to generate enrollment demand sufficient to maintain its financial stability and sustain its current operations.
- The institutions are directed to submit to the Council office a plan for the continued operations of its campuses that includes:
 - a. A listing, by campus, of students with the student name; program of study; and expected graduation date.
 - b. An aggregate total, by campus, of the status of unearned tuition, status of refunds due, and current student account balances.
 - c. A listing, by campus including all online activity, of comparable programs offered at other institutions in case teach-out agreements or transfer arrangements are needed for students to complete their programs elsewhere.
 - d. A custodian for all permanent academic records in case of closure that includes contact information for this individual or entity and the process by which students can obtain their records.
 - e. A description of the financial resources available to ensure that students can complete their programs or receive refunds in the event that the institution does suspend or cease operations.

Mr. Kevin Modany
April 20, 2016
Page 4

Please submit eight hard copies of your response and one electronic copy via flash drive(s) by the date indicated above. Following submission and review of the institutions' response, ACICS may conduct a special visit to the institutions. Failure to provide all information requested by the Council may result in the withdrawal of your institutions' grants of accreditation.

The Council is obligated to take adverse action against any institution that fails to come into compliance with the *Accreditation Criteria* within established time frames without good cause. Please consult the Introduction of Title II, Chapter 3 for additional information.

Your immediate attention to this matter is required. If you have any questions, please contact me at (202) 336-6781 or abieda@acics.org.

Sincerely,



Anthony S. Bieda
Executive in Charge

c: ITT Technical Services, Inc.: RegulatoryAAC@itt-tech.edu
ITT Technical Institute, Indianapolis, IN: Regulatory011@itt-tech.edu
ITT Technical Institute, Spokane Valley, WA: Regulatory051@itt-tech.edu
U.S. Department of Education: aslrecordsmanager@ed.gov
Atlanta School Participation Division- Region IV: christopher.miller@ed.gov
Boston/New York School Participation Team- Region I & II: Betty.coughlin@ed.gov
Chicago/Denver School Participation Team- Region V & VIII: douglas.parrott@ed.gov
Chicago/Denver School Participation Team- Region V & VIII: Kerry.O'Brien@ed.gov
Dallas School Participation Team- Region VI: cynthia.thornton@ed.gov
Kansas City School Participation Team- Region VII: ralph.lobosco@ed.gov
Philadelphia School Participation Team- Region III: Nancy.paula.gifford@ed.gov
San Francisco/Seattle School Participation Team- Region IX: martina.fernandez-rosario@ed.gov
Alabama Department of Postsecondary Education: amcgrady@dpe.edu
Arizona State Board For Private Postsecondary Education: teri.stanfill@azppse.gov
Arkansas State Board of Private Career Education: brenda.germann@arkansas.gov
California Bureau For Private Postsecondary Education: Leeza.Rifredi@dca.ca.gov
Colorado Department of Higher Education: lorna.candler@dhe.state.co.us
Commission On Postsecondary Education (Nevada): kdwest@cpe.state.nv.us
Florida Department of Education: Susan.Hood@fldoe.org

Georgia Nonpublic Postsecondary Education Commission: billc@npec.state.ga.us
Idaho State Board of Education: valerie.fenske@osbe.idaho.gov
Illinois Board of Higher Education: campbell@ibhe.org
Indiana Commission On Proprietary Education: rmiller@che.in.gov
Iowa College Student Aid Commission: Carolyn.small@iowa.gov
Kansas Board of Regents: jjohnson@ksbor.org
Kansas Board of Regents: cpuderbaugh@ksbor.org
Kentucky Council On Postsecondary Education: aaron.thompson@ky.gov
Maryland State Board of Nursing: marykay.goetter@maryland.gov
Massachusetts Division of Professional Licensure:
occupational.schools@MassMail.State.MA.US
Michigan Department of Licensing and Regulatory Affairs: beamishm@michigan.gov
Minnesota Office of Higher Education: betsy.talbot@state.mn.us
Mississippi Commission of Proprietary School and College Registration:
kverneuille@mccb.edu
Missouri Department of Higher Education: leroy.wade@dhe.mo.gov
Nebraska Department of Education: brad.dirksen@nebraska.gov
New Mexico Higher Education Department: Diane.Vigil@state.nm.us
New York State Education Department: carole.yates@nysed.gov
NJ Department of Labor and Workforce Development:
trainingevaluationunit@dol.state.nj.us
North Carolina Community College System: corls@nccommunitycolleges.edu
Ohio State Board of Career Colleges and Schools: john.ware@scr.state.oh.us
Oklahoma Board of Private Vocational Schools: nhouse@obpvs.ok.gov
Oklahoma Career and Technology Education Board of Education:
Robert.Sommers@okcareertech.org
Oregon Office of Degree Authorization: hilda.rosselli@state.or.us;
helen.dunford@state.or.us; aethia.miller@state.or.us
Pennsylvania Division of Private Licensed Schools: plandis@pa.gov
South Carolina Commission On Higher Education: lgoodwin@che.sc.gov
State Council of Higher Education For Virginia: sylviarosacasanova@schev.edu
Tennessee Higher Education Commission: julie.woodruff@tn.gov
Texas Higher Education Coordinating Board: cathie.maeyaert@thehb.state.tx.us
Texas Workforce Commission: michael.delong@twc.state.tx.us
Utah Dept. of Commerce: mwinegar@utah.gov
Utah Dept. of Commerce: egaleria@utah.gov
Washington Student Achievement Council: michaelb@wsac.wa.gov
Wisconsin Educational Approval Board: David.Dies@eab.wisconsin.gov
Wisconsin Educational Approval Board: Linda.Heidtman@eab.wisconsin.gov
Dr. Joseph Gurubatham, ACICS Executive Vice President: jgurubatham@acics.org

Exhibit C



June 06, 2016

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

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

Dear Mr. Modany:

On August 19, 2014 ITT Educational Services, Inc., (ITT) was cited by letter from the Department of Education (Department) for late submission of its annual compliance audits and financial statements. As a result of this past performance failure and the requirements of 34 C.F.R. §668.175(f), the Department required ITT to participate in the Title IV, HEA programs under a Provisional Program Participation Agreement (PPPA) for three award years.

In accordance with the Zone Alternative Reporting Requirements, ITT must notify the Department by certified mail or electronic or facsimile transmission no later than 10 days after any adverse action, including probation or similar action, taken against the Institution by its accrediting agency, state authorizing agencies or other federal agency.

On April 22, 2016 the Department received notification that ITT Technical Institutes in Indianapolis, IN and Spokane Valley, WA received a Show-Cause Directive Letter dated April 20, 2016 from the Accrediting Council for Independent Colleges and Schools (ACICS).

ACICS' letter stated that a number of actions called into question ITT's administrative capacity, organizational integrity, financial viability and ability to serve students in a manner that complies with ACICS standards. Specifically:

- Civil-investigative demands from 19 State Attorney General Offices, regarding: ITT's marketing and advertising; recruitment; financial aid; academic advising; career services; admissions practices; programs; licensure exam pass rates; accreditation; student retention; graduation rates; and job placement performance are still unresolved.
- Litigation and investigations by three federal agencies, for a variety of issues related to the institution's student lending practices and misrepresentations to investors and alleged violation of the federal False Claims Act are still unresolved.

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 20202-8340
www.FederalStudentAid.ed.gov

- ITT continues to participate in the Title IV, HEA programs under the Heighted Cash Monitoring conditions applied to the institutions' access to funds, with the attendant financial implications.
- ITT's response to public and widely-known allegations regarding the quality of instructional materials has been insufficient.
- ITT's has failed to comply with an ACICS directive to develop and submit a plan that provides for the continuation and completion of all students currently enrolled in the event that the institutions curtail or suspend operations.

The Department believes that the ACICS "Council" action represents an increased risk to Title IV funds that ITT administers on behalf of its students. ITT's failure to demonstrate compliance with the Accreditation Criteria, within the time period specified by the accreditor, may result in the accreditor's taking an adverse action with respect to the school's accredited status, including by Probation, a "Withholding" Action, or a "Withdrawal" Action. We note that this concern from ACICS comes at a point where the company's financial performance is also being questioned, and that discussions about a potential sale have fallen through. If any of the actions are imposed on ITT because the institution is unable to demonstrate that it consistently operates in accordance with the Accreditation Criteria, the risk of loss of accreditation may result in the institution's losing students and the loss of accreditation would result in the loss of its Title IV eligibility.

The purpose of a Letter of Credit (LOC) is to allow for meeting liabilities that would be owed 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. Due to this increased risk of the ACICS, the Department has determined the surety on file must be increased from \$79,707,879 to \$123,646,182.

ITT must also continue to comply with the zone alternative requirements currently in effect. Specifically:

1) Method of Payment – ITT is required to make disbursements to eligible students and parents under the cash monitoring described under 34 C.F.R. § 668.162(e).

Under the Heightened Cash Monitoring 1 (HCM1) payment method, as required by 34 C.F.R. § 668.162(e), the Institution must first make disbursements to eligible students and parents before it requests or receives funds for the amount of those disbursements from the Department. This "Records First" requirement is fully described in the 2013-2014 Funding Authorization and Disbursement Information eAnnouncement, issued March 15, 2013. The funding request may not exceed the amount of the actual disbursements that were made to the students and parents included in the funding request. Provided the student accounts are credited before the funding requests are initiated, the Institution is permitted to draw down funds through the Department's electronic system for grants management and payments, G5, for the amount of disbursements it made to eligible students and parents.

The Records First requirement also means that institutions on HCM1 that are participating in the Direct Loan (DL) program will have their Current Funding Level (CFL) reduced to the greater of Net Approved and Posted Disbursements (NAPD) or Net Draws (processed payments less all refunds, returns, offsets, and drawdown adjustments). In the event of returning to Advanced

Funded status, the institution will be expected to continue processing DL awards as Records First until the next DL global funding increase is processed.

Refer to the following eAnnouncement,

[http://ifap.ed.gov/eannouncements/attachments/031513AttachImportantReminders1314FundingAu
thandDisbursInfo.pdf](http://ifap.ed.gov/eannouncements/attachments/031513AttachImportantReminders1314FundingAu
thandDisbursInfo.pdf), for additional information about the Records First requirement.

2) Notification Requirements – ITT is 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.

- 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; or
- Any extraordinary losses as defined in accordance with Accounting Principles Board (APB) Opinion No. 30
- Any filing of a petition by the Institution for relief in bankruptcy court.

Additional Reporting Requirements – Under the Zone Alternative, In order for the Department to monitor ITT's progress in improving the Institution's financial stability, ITT must continue to provide the following information about its current operations and future plans within the timeframe outlined in the Departments May 20, 2015, June 08, 2015, and October 19, 2015 letters:

- A Biweekly Report of ITT's 13 Week Projected Cash Flow Statement with financial disclosure notes;
- Cash Management and Disbursement Certification Forms regarding Title IV, HEA funds administered and drawn by ITT on behalf of its students.
- Monthly Student Roster and Disbursement Report;
- Reconciliation Report of all Title IV funds drawn as of the last day of the month proceeding the month before the submission date;
- Description of any conditions that have been established by any bank or other entity that are related to ITT's participation in the Title IV HEA programs;
- List of all individuals who have the authority to direct or otherwise control the payment of any "refund[s] of unearned institutional charges" to the Department;

Please refer to the Departments May 20, 2015, June 08, 2015, and October 19, 2015 letters, and any other modifications provided under a separate cover (ex: Emails) for detailed submission requirements (timeframe, formatting, etc.) for the above listed additional reporting documents.

Please continue to submit the additional reporting documents to the designated contact(s) outlined in the Departments May 20, 2015, June 08, 2015, and October 19, 2015.

Documents containing Personally Identifiable Information (PII) being submitted to the Department via electronic mail must be password protected. PII is any information about a student which can be used to distinguish or trace the student's identity (some examples are name, social security number, date and place of number, special character).

If ITT fails to continue to provide the information requested, the Department will be unable to determine if the financial responsibility standards have been met. Therefore, ITT may be referred to the Administrative Actions and Appeals Service Group for administrative action.

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 \$79,707,879 until November 04, 2019. ITT may provide the increased amount by Federal Wire Transfer, or can provide a new LOC in the amount of \$43,938,303. 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 45 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,



Michael J. Frola
Director, Multi-Regional and Foreign Schools Participation Division

Enclosures: Sample Letter of Credit
Federal Wire Transfer Instructions
The Departments August 19, 2014 Letter to ITT
The Departments August 21, 2014 Letter to ITT
The Departments May 20, 2015 Letter to ITT
The Departments June 08, 2015 Letter to ITT
The Departments October 19, 2015 Letter to ITT
The Departments December 10, 2015 Letter to ITT

cc: Kevin M. Modany, Chief Executive Officer (kmodany@ittesi.com)
Daniel M. Fitzpatrick, Chief Financial Officer (dfitzpatrick@ittesi.com)
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

IRREVOCABLE LETTER OF CREDIT

<Insert name, address and telephone number of issuing bank>

To beneficiary:

U.S. Department of Education
ATTN: Veronica Pickett, Director
Performance Improvement and Procedures
Federal Student Aid/Program Compliance
830 First Street, NE, UCP3, MS 5435
Washington, DC 20002-8019

Date: <Insert Date LOC Issued>

Amount: \$ <Insert U.S. Dollar amount>

Expiration Date: <Insert Date>

Dear Sir/Madam:

We hereby establish our Irrevocable Letter of Credit Number <Insert LOC Number> in your favor for the account of:

<Insert Name and Address of Institution>

OPE-ID #: <Insert 8 digit Office of Postsecondary Education ID number>

Hereafter, <Insert Name of Institution> ("Institution"), presents, in the amount of \$<Insert Dollar Amount> (U.S. dollars), available by your draft (or drafts drawn on us) at sight accompanied by:

- a) the original of this letter of credit instrument (along with originals of all amendments), and
- b) a statement signed by the Secretary ("Secretary"), U.S. Department of Education ("Department"), or the Secretary's representative, certifying that the drafted funds will be used for one or more of the following purposes, as determined by the Secretary:
 - 1) to pay refunds of institutional or non-institutional charges owed to or on behalf of current or former students of the Institution, whether the Institution remains open or has closed,
 - 2) to provide for the "teach-out" of students enrolled at the time of the closure of the Institution, and
 - 3) to pay any liabilities owing to the Secretary arising from acts or omissions by the Institution, on or before the expiration

**U.S. Department of Education
Irrevocable Letter of Credit for
<Insert Name of Institution>
Page 2**

of this letter of credit, in violation of requirements set forth in the Higher Education Act of 1965, as amended ("HEA"), including the violation of any agreement entered into by the Institution with the Secretary regarding the administration of programs under Title IV of the HEA.

Should the Institution fail to renew the letter of credit within ten (10) days prior to its expiration, as directed by the Department, the Department may call the letter of credit and place the funds in an escrow account at the Department pending a prompt determination of the extent to which those funds will be used in accordance with subparagraphs 1) through 3), above.

We hereby agree with you that partial drawings are permitted and that drafts drawn under and in compliance with the terms of this letter of credit will be duly honored upon due presentation at our offices on or before the expiration date of this letter of credit.

This letter of credit is subject to the International Standby Practices (ISP98), International Chamber of Commerce Publication Number 590.

Printed Legal Name

Authorized Signature

Date Signed

Printed Official Title of Authorized Signer

**DEPARTMENT OF EDUCATION
FED-WIRE EFT MESSAGE FORMAT & INSTRUCTIONS**

ABA Number 021030004	Type/Sub-Type	
Sender No.:	Sender Ref. No.	Amount ①

Sender Name (Automatically inserted by the Federal Reserve Bank)

Treasury Department Name/CTR/
TREAS NYC / CTR /

BNF=ED / AC - 91020001 OBI=

Name / City / State:

②

DUNS / TIN:

③

FOR:

④

INSTRUCTIONS

A. Complete circled items 1-4 above as follows:

- ①** Indicate amount including cents digits.
- ②** Indicate Name, City, and State.
- ③** Indicate DUNS Number and Taxpayer Identification Number (TIN).
- ④** Enter the reason for the remittance: Name of Institution, OPE ID Number, LOC Number (include any amendments) and LOC Amount.

Johnson, Yvette@DCA

From: Rifredi, Leeza@DCA
Sent: Thursday, August 25, 2016 12:13 PM
To: Johnson, Yvette@DCA
Subject: FW: ITT Tech Update/8-K Filed 07/12/16
Attachments: ESI (ITT Educational Services Inc.) (8-K) 2016-07-12.pdf



Leeza Rifredi

Deputy Bureau Chief
Department of Consumer Affairs
Phone: (916) 431-6908
Fax: (916) 263-1894
leeza.rifredi@dca.ca.gov

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Keep up to date on Bureau happenings through



From: Sheri Campfield at HQ [<mailto:SCampfield@itt-tech.edu>]
Sent: Tuesday, July 12, 2016 2:40 PM
To: Wenzel, Joanne@DCA
Cc: Rifredi, Leeza@DCA
Subject: ITT Tech Update/8-K Filed 07/12/16

Dear Ms. Wenzel,

As previously disclosed, on June 6, 2016, ITT Educational Services, Inc. (the "Company") received a letter from the U.S. Department of Education (the "ED") stating that the ED had determined that the amount of surety provided by the Company must be increased. On July 6, 2016, in response to discussions between the Company and the ED since the Company's receipt of the June 6 ED Letter, the Company received a letter ("the July 6 ED Letter") from the ED regarding the additional amount. The July 6 ED Letter provides that the Company must agree to post the Additional Amount in three equal installments of \$14,646,601 on each of July 20, 2016, September 30, 2016, and November 30, 2016. A copy of the 8-K filed on July 12th is attached for your reference with additional details.

As we are committed to keeping you fully informed of our efforts and progress, we will continue to keep you apprised of all developments. If you have any questions, please do not hesitate to contact me.

Sincerely,

Sheri Campfield
Regulatory Affairs Manager
ITT Educational Services, Inc.

Exhibit D

Morningstar[®] Document ResearchSM

FORM 8-K

ITT EDUCATIONAL SERVICES INC - ESI

Filed: July 12, 2016 (period: July 12, 2016)

Report of unscheduled material events or corporate changes.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

DATE OF REPORT (Date of earliest event reported): **July 6, 2016**

ITT EDUCATIONAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other
jurisdiction of
incorporation)

1-13144
(Commission
File Number)

36-2061311
(IRS Employer
Identification No.)

13000 North Meridian Street
Carmel, Indiana 46032-1404
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(317) 706-9200**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.04. Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement

To the extent applicable under this Item, the information set forth under Item 8.01 below is incorporated by reference into this Item 2.04.

Item 8.01 Other Events

As previously disclosed, on June 6, 2016, ITT Educational Services, Inc. (the "Company") received a letter (the "June 6 ED Letter") from the U.S. Department of Education (the "ED") stating that the ED has determined that the amount of surety provided by the Company (which assures the Secretary of Education that funds would be available from which to make refunds, provide teach-out facilities and meet institutional obligations to the ED) must be increased from \$79,707,879 to \$123,646,182. The June 6 ED Letter states that the Company can provide the additional amount required of \$43,938,303 (the "Additional Amount") to be held as additional ED Escrowed Funds (as defined below) under the ED Agreement (as defined below), or that the Company may provide a new letter of credit payable to the ED in the Additional Amount. The June 6 ED Letter provides that the Additional Amount must be provided under either option within 45 days from the date of the June 6 ED Letter. The Additional Amount will also be held in escrow or pursuant to a letter of credit until November 4, 2019, unless the Company is notified on or before then of the requirement and reasons that the ED Agreement needs to be extended, to the extent provided in the ED's financial responsibility regulations.

As previously disclosed, the Company originally submitted a letter of credit payable to the ED in the full amount of the initial \$79.7 million required amount (the "ED Letter of Credit"). On December 16, 2015, the Company and the ED entered into an agreement (the "ED Agreement"), which provided that the Company would provide funds to the ED for the ED to maintain in an escrow account (the "ED Escrowed Funds") in lieu of the ED Letter of Credit. On December 17, 2015, the Company provided to the ED funds in the amount of \$79.7 million, which the ED will hold until November 4, 2019, subject to extension as noted above. As a result of the Company's provision of funds under the ED Agreement, the ED Letter of Credit was cancelled on December 22, 2015.

On July 6, 2016, in response to discussions between the Company and the ED since the Company's receipt of the June 6 ED Letter, the Company received a letter (the "July 6 ED Letter") from the ED regarding the Additional Amount. The July 6 ED Letter provides that the Company must agree to post the Additional Amount in three equal installments of \$14,646,601 on each of July 20, 2016, September 30, 2016, and November 30, 2016. The July 6 ED Letter also states that prior to the Company's last installment due on November 30, 2016, the ED will evaluate the Company's Title IV funding level for the 2016 fiscal year to determine if an adjustment in the scheduled payment amount can be made while ensuring that the amount held in surety still represents at least 20% of the Company's annual student aid funding, and, if the ED has determined that an adjustment in the payment amount is needed, the Company will be notified in writing. The Company believes that, after the first two scheduled payments on July 20, 2016 and September 30, 2016, the ED will hold in excess of 20% of the Company's Title IV funding calculated either on (1) actual Title IV receipts for the twelve months ended September 30, 2016, or (2) estimated Title IV receipts for the twelve months ended December 31, 2016. However, there can be no assurances that the ED will adjust the payment due on November 30, 2016 or, if an adjustment is made, what the amount of the adjustment will be.

The Company expects to provide to the ED the Additional Amount from its operating cash flows, with those funds to be maintained by the ED in an escrow account. In order to generate sufficient cash from operations to provide the Additional Amount, the Company expects to implement certain modifications to its historical marketing and recruitment strategy. The specific details of the modifications are being finalized, and are expected to be reported by the Company in future filings with the U.S. Securities and Exchange Commission and other public disclosures as appropriate.

The sanctions imposed on the Company by the ED could have a material adverse effect on the Company's financial condition, results of operations, cash flows and ability to meet its contractual and regulatory obligations. Further, there can be no assurance that the Company will be able to fund the Additional Amount to be held in escrow or submit a letter of credit in the Additional Amount. The Company's provision of the Additional Amount to be held in escrow, or its provision of cash required to collateralize a letter of credit in the Additional Amount, will have a material adverse effect on the Company's liquidity, and will significantly reduce the amount of cash that it will have available for other purposes, including to satisfy its future payment obligations under the guarantee arrangements related to the two private education loan programs to which it is subject. The fact that a significant amount of the Company's cash is and will be held in connection with the ED's requirements could also negatively affect the Company's ability to satisfy the financial metrics of the ED, state education and professional licensing authorities and the accrediting commissions that accredit the Company's institutions.

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Forward-looking statements are made based on the current expectations and beliefs of the company's management concerning future developments and their potential effect on the company. The company cannot assure you that future developments affecting the company will be those anticipated by its management. These forward-looking statements involve a number of risks and uncertainties. Among the factors that could cause actual results to differ materially are the following: the failure of the company to show cause to ACICS' satisfaction that the Company's institutions' grants of accreditation should not be withdrawn or conditioned; the impact of adverse actions by the ED related to certain deficiencies; the inability of the Company to fund the Additional Amount; the action by the U.S. Securities and Exchange Commission against the company; issues or negative determinations related to the restatement of the company's financial statements; the company's failure to submit its 2013 audited financial statements and 2013 compliance audits with the ED by the due date; the impact of the consolidation of variable interest entities on the company and the regulations, requirements and obligations that it is subject to; the inability to obtain any required amendments or waivers of noncompliance with covenants under the company's financing agreement; the company's inability to remediate material weaknesses, or the discovery of additional material weaknesses, in the company's internal control over financial reporting; the company's exposure under its guarantees related to private student loan programs; the outcome of litigation, investigations and claims against the company; the failure of potential settlements to be approved and finalized on the terms proposed or initially agreed to; the effects of the cross-default provisions in the company's financing agreement; changes in federal and state governmental laws and regulations with respect to education and accreditation standards, or the interpretation or enforcement of those laws and regulations, including, but not limited to, the level of government funding for, and the company's eligibility to participate in, student financial aid programs utilized by the company's students; business conditions in the postsecondary education industry and in the general economy; the company's failure to comply with the extensive education laws and regulations and accreditation standards that it is subject to; effects of any change in ownership of the company resulting in a change in control of the company, including, but not limited to, the consequences of such changes on the accreditation and federal and state regulation of its campuses; the company's ability to implement its growth strategies; the company's ability to retain or attract qualified employees to execute its business and growth strategies; the company's failure to maintain or renew required federal or state authorizations or accreditations of its campuses or programs of study; receptivity of students and employers to the company's existing program offerings and new curricula; the company's ability to repay moneys it has borrowed; the company's ability to collect internally funded financing from its students; and other risks and uncertainties detailed from time to time in the company's filings with the U.S. Securities and Exchange Commission. The company undertakes no obligation to update or revise any forward-looking information, whether as a result of new information, future developments or otherwise.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 12, 2016

ITT Educational Services, Inc.

By: /s/ Rocco F. Tarasi, III
Name: Rocco F. Tarasi, III
Title: Executive Vice President, Chief
Financial Officer

Johnson, Yvette@DCA

From: Rifredi, Leeza@DCA
Sent: Thursday, August 25, 2016 12:13 PM
To: Johnson, Yvette@DCA
Subject: FW: ITT Tech Update/8-K Filed 07/12/16
Attachments: ESI (ITT Educational Services Inc.) (8-K) 2016-07-12.pdf



Leeza Rifredi

Deputy Bureau Chief
Department of Consumer Affairs
Phone: (916) 431-6908
Fax: (916) 263-1894
leeza.rifredi@dca.ca.gov

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From: Sheri Campfield at HQ [<mailto:SCampfield@itt-tech.edu>]
Sent: Tuesday, July 12, 2016 2:40 PM
To: Wenzel, Joanne@DCA
Cc: Rifredi, Leeza@DCA
Subject: ITT Tech Update/8-K Filed 07/12/16

Dear Ms. Wenzel,

As previously disclosed, on June 6, 2016, ITT Educational Services, Inc. (the "Company") received a letter from the U.S. Department of Education (the "ED") stating that the ED had determined that the amount of surety provided by the Company must be increased. On July 6, 2016, in response to discussions between the Company and the ED since the Company's receipt of the June 6 ED Letter, the Company received a letter ("the July 6 ED Letter") from the ED regarding the additional amount. The July 6 ED Letter provides that the Company must agree to post the Additional Amount in three equal installments of \$14,646,601 on each of July 20, 2016, September 30, 2016, and November 30, 2016. A copy of the 8-K filed on July 12th is attached for your reference with additional details.

As we are committed to keeping you fully informed of our efforts and progress, we will continue to keep you apprised of all developments. If you have any questions, please do not hesitate to contact me.

Sincerely,

Sheri Campfield
Regulatory Affairs Manager
ITT Educational Services, Inc.

Exhibit E



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



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Important Information Regarding ITT Educational Services, Inc.

On this page you will find information related to the Department of Education's (ED) recent oversight and compliance actions imposed against ITT Educational Services.

Notice of Intent to Increase ITT Educational Services, Inc.
Surety Held by ED

On April 22, 2016, ED received notification that ITT Technical Institute—a subsidiary of ITT Educational Services—located in Indianapolis, IN, and Spokane Valley, WA, received a Show-Cause Directive Letter on April 20, 2016, from the Accrediting Council for Independent Colleges and Schools (ACICS). ACICS' letter stated that a number of actions called into question ITT's administrative capacity, organizational integrity, financial viability and ability to serve students in a manner that complies with ACICS standards.

Due to the seriousness of the issuance of a Show Cause letter and the issues noted by ACICS, ED issued a letter dated June 6, 2016, to ITT Educational Services, Inc., requiring ITT to increase its surety on file with ED from 10% to 20% of the total Title IV funding received in its most recent fiscal year ended December 31, 2015. (A surety is used to cover certain liabilities if a school closes at a time other than at the end of an academic period. Funds from the surety could be used to make refunds, provide teach-out facilities, and meet institutional obligations to ED.) As a result, the current surety amount held by ED must increase by \$43,938,303 from \$79,707,879 to \$123,646,182.

Notice of Additional Requirements and Conditions for ITT's Continued Participation in Federal Student Aid Programs

As referenced above, on August 4, 2016, ACICS held a hearing regarding the show cause imposed on ITT Technical Institutes, and on August 17, 2016, ACICS informed the Department that ACICS continued both institutions on Show Cause. The August 17, 2016, Continue Show-Cause Directive Letter issued by ACICS continues to question ITT's compliance with a number of ACICS accreditation standards, finding that ITT has not demonstrated full compliance. 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 Provisional Program Participation Agreement with ED.

Due to the ongoing concerns noted in ACICS’ Continue Show-Cause Directive Letter and the continued risk to students and taxpayers, ED issued a letter dated August 25, 2016, to ITT Educational Services, Inc. imposing new requirements and conditions for ITT’s continued participation in federal student aid programs.

For additional information on how these actions may impact students enrolled at ITT and the options available, read our blog post on today’s action.

ED will post additional information for students to this site as the situation develops. Please check back for updates.

HOMEROOM

THE OFFICIAL BLOG OF THE
U.S. DEPARTMENT OF EDUCATION

(<http://blog.ed.gov/>)

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Home (<http://blog.ed.gov/>)

Comments Policy (<http://blog.ed.gov/comments-policy/>)

Increased Oversight of ITT and the Impact on Students (<http://blog.ed.gov/2016/08/increased-oversight-of-itt-and-the-impact-on-students/>)

In recent years, ITT Educational Services, Inc. (ITT) has increasingly been the subject of state and federal investigations and this year it has twice been found out of compliance with its accreditor's standards. Over time, ITT's decisions have put its students and millions of dollars in taxpayer funded federal student aid at risk. In response, over the last couple of years, we at the Department of Education have increased our financial oversight

(<https://www.insidehighered.com/news/2015/10/20/education-department-steps-its-scrutiny-itt-tech>) over ITT and required the school to boost its cash reserves

(<https://www.insidehighered.com/quicktakes/2016/06/07/itt-tech-told-increase-letter-credit>) to cover potential damages to taxpayers and students.

These investigations are still ongoing and last week ITT still failed to address its accreditor's concerns. In response, today we're announcing further federal action: To protect prospective students and taxpayers, we're no longer allowing ITT to enroll new students with federal aid. In addition, in case the school's actions cause it to close, we're increasing the amount of cash reserves it must send us and we're ending its installment payment plan for the amount previously required. Finally, we're slowing down when ITT receives student aid from the government to ensure that ITT is handling its finances properly.

As a current ITT student with federal loans, you have some options:

1. You can continue your courses at ITT with your federal student aid. There's no immediate change to your program.
2. You can transfer your credits to a new school (if that school accepts them) and complete your education.
3. You can pause your education and wait to see how this matter resolves itself in the coming months. If ITT closes before you finish your program *and* you don't transfer your credits, you will likely be eligible to discharge your federal loans. (<https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/closed-school>)

I imagine you have some questions. Let me try to answer a few of them for you.

I'm close to graduating. Can I finish my degree?

Yes, unless ITT chooses to close instead of continuing to teach students. If you've already started classes at ITT, you can continue using federal aid there as long as the school remains open. New students will not be able to use federal student aid for classes at ITT.

If ITT eventually closes, will I still have to repay my federal student loans?

If ITT closes you may be eligible for a closed school loan discharge. If we reach that point we'll share information on that process as you consider your options through the [Federal Student Aid's announcement page](https://studentaid.ed.gov/sa/announcements) (<https://studentaid.ed.gov/sa/announcements>).

I just recently enrolled at ITT, but I haven't started classes yet. Can I still use federal aid?

No. If you are a new student who has never been enrolled at ITT in a previous semester, you cannot start classes at ITT in the fall semester of 2016 using federal student aid. I know this is probably a major disappointment and inconvenience, but it's too risky. You should still pursue a higher education. You might want to use our [College Scorecard](https://collegescorecard.ed.gov/) (<https://collegescorecard.ed.gov/>) to explore your options and find the program that's right for you.

Will this impact my GI Bill benefits?

No. The U.S. Department of Veterans Affairs (VA) will notify affected GI Bill students that, at this point, the Department's actions do not directly affect their GI Bill benefits. These actions, however, do raise significant concerns about ITT's financial viability. Current GI Bill students at ITT should carefully consider the potential impact that the Department's actions may have on their educational goals.

If you are a GI Bill student and have questions about your GI Bill benefits, please contact the VA's Education Call Center at 1-888-442-4551 or visit the [GI Bill website](http://www.benefits.va.gov/gibill/) (<http://www.benefits.va.gov/gibill/>). If you are eligible for the GI

Bill and want to explore your education options, you can use the [GI Bill Comparison Tool \(https://www.vets.gov/gi-bill-comparison-tool\)](https://www.vets.gov/gi-bill-comparison-tool) to find the program that's right for you.

I already completed my degree at ITT. Is it worthless?

No. You completed your degree at an operational and accredited institution. Nobody can take away your credentials or the skills you gained.

I already completed my ITT program but I feel like I was defrauded. Can I get my money back?

The actions we're taking against ITT today are based on the operational and financial risk they pose to students and taxpayers, not on a finding that they defrauded students. There are, however, a number of open federal and state investigations into ITT campuses. If those investigations find evidence of fraud or other illegal behavior surrounding your specific program, you might be eligible for relief. You can also go to Federal Student Aid's [borrower defense page \(https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/borrower-defense\)](https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/borrower-defense) to learn more about how to file a claim if you believe the school misled you.

I'm nervous that ITT may close and I don't want to start over. Should I transfer my credits?

That's an option. It's a choice that only you can make and one that you should consider carefully. Each student's circumstances will be unique.

Here are a few key things to consider:

1. Whether your credits transfer will be up to the new school. It's likely to vary based on the type of program and school you're considering.
2. If you transfer your credits, you may not be eligible to have some or all of your federal loans discharged if ITT ultimately closes.

3. Before you transfer, ask yourself: Is the type of program I've started still the right one for me? Will finishing it open up the career opportunities I want? You may want to check out our [College Scorecard](https://collegescorecard.ed.gov/) (<https://collegescorecard.ed.gov/>) as you think about the answers to those questions.

Where can I go to get updates on what's happening with my school? What's the most reliable place for information?

Your school should update you directly. We'll also post updates if there are major changes on [Federal Student Aid's announcement page](https://studentaid.ed.gov/sa/announcements) (<https://studentaid.ed.gov/sa/announcements>).

Ted Mitchell is U.S. Under Secretary of Education.

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