

U.S. Department of Education

Press Call to Announce Increased Oversight Measures for ITT Educational Services, Inc.

Moderator: Kelly Leon
August 25, 2016
3:09 pm ET

Coordinator: Welcome and thank you for standing by. At this time all participants are in listen-only mode. Questions will be taken towards the end of the conference. To ask a question then, you may press star followed by the Number 1.

As a reminder, this call is being recorded. If you have any objections, you may disconnect at this point and now I'll turn the meeting over to your host, Ms. Kelly Leon. Ma'am, you may begin.

Kelly Leon: Hi, thanks, (Anderson). Thanks everyone for joining us this afternoon and thanks for your interest in today's announcement. My name is Kelly Leon and I'm the Assistant Press Secretary here at the Department of Education.

Today we are announced a series of actions to step-up our oversight of for-profit educational provider, ITT educational services, Inc. or I-T-T. For today's conversations we'll begin with remarks from Secretary of Education Dr. John B. King, Jr., then turn it over to Undersecretary of Education Dr. Ted Mitchell.

The Department's press release was published at approximately 2:00 pm today and can be found under the press release section of our website. If for some reason you did not receive that announcement, please e-mail us at press@ed.gov. As a reminder today's call is on the record. Let's go ahead and begin with Secretary King.

John King: Thanks, good afternoon everyone and thank you for joining us. Protecting all students and fulfilling our responsibility of being good stewards of taxpayer dollars are core values of the Obama administration. That's why today we are taking several major actions to protect students and taxpayers.

We're placing ITT educational services, Inc., or I-T-T, on heightened cash monitoring 2 which will allow the Department to more closely monitor federal student aid money for current students.

We're increasing the amount of cash reserves that ITT must send to us to cover liabilities in the event of a school closure. We are banning ITT from enrolling new students who are using federal student aid dollars and we are limiting bonuses and severance pay for senior executives at ITT.

These actions follow a troubling series of findings by ITT's creditor, the Accrediting Council for Independent Colleges and Schools or A-C-I-C-S that show issues with ITT's financial stability, recordkeeping capacity, administrative management and student achievement outcomes as well as questions about ITT's recruitment and admission standards, student retention, graduation rates and job placement performance.

This action follows increasingly heightened oversight by the Education Department starting in 2014. We don't take these actions lightly and we know students will have a lot of questions about how our enforcement affects them.

But looking at all of the risk factors, it's clear that we need increased financial protection and that it simply would not be responsible or in the best interest of students to allow ITT to continue enrolling new students who rely on federal and student aid funds.

We will do everything in our power to be helpful and ensure current ITT students don't shoulder the burden of the school's bad behavior. These actions are sweeping and will significantly alter ITT's existing operational practices. Undersecretary Ted Mitchell who is on the call can talk more about that in a minute.

As we've said many times before, our responsibility is to protect students and safeguard taxpayer dollars. We believe the measures we are taking today achieve both of those goals while holding ITT accountable for its behavior.

We take our enforcement responsibilities seriously. That's why over the last seven years the Obama administration has taken a number of actions to protect students, borrowers and taxpayers from the illegal behavior of some institutions and programs.

Those actions include our gainful employment regulations, strengthening our oversight tools and making legislative proposals to strengthen accreditation, and establishing an interagency task force to tackle abuse in the for-profit sector.

We've also created the new student aid enforcement unit and stepped-up our oversight of risky institutions. I'll turn it over to Ted to say more about today's announcement.

Ted Mitchell: Thank you John and thanks everybody for being on the call. In today's economy it's tough to make it without a post-secondary education. ITT's students -- and all students in higher education -- show-up for class with the hope of being well-prepared for their careers to support their families and to participate in American civic life.

Never before in our nation's history has our education mattered so much to so many. We at the Department take seriously our responsibility to decisively and meaningfully respond to risky actions that threaten students' post-secondary success and at this moment, ITT poses a significant risk to students and taxpayers.

As John mentioned, ITT's accreditor has continued to call into question its and I'm quoting "administrative capacity, organizational integrity, financial liability and ability to serve students." Just last week its accreditor published a letter noting that these findings continue.

Millions of dollars in taxpayer money and tens of thousands of students are in jeopardy. We have both a legal and an ethical obligation to strengthen safeguards in accordance with the public's trust and that's why we're acting today.

I want to share a little bit more detail on the core actions we took today, actions that John highlighted a moment ago. First the letter of credit increase. We have doubled ITT's surety, the amount of cash reserves it must hand over to cover closure expenses if they have them to 40% in a new letter of credit.

The purpose of a letter of credit is to meet liabilities that would be owed to the federal government including those that would occur if the institution abruptly closes or terminates classes at other than the end of an academic period.

Having these funds assures us that taxpayers won't be left holding the bag for student refunds and teach-outs.

Earlier this year we allowed ITT to pay its previous surety in installments. We're canceling that installment plan and the Department is requiring that ITT post an additional \$152 million with 30 days from the date of this letter.

Second, heightened cash monitoring. We're heightening our financial oversight of ITT by moving it from Heightened Cash Monitoring 1 up to Heightened Cash Monitoring 2 to be sure that ITT is appropriately administering federal student aid.

As a result ITT must use its own funds to initially cover Title IV aid disbursements for current students. The Department will reimburse funds to ITT after that aid is disbursed to students and we verify those students' eligibility.

Number 3, enrollment restrictions. ITT may no longer enroll new students who plan to use Title IV federal aid dollars for educational expenses. Existing students may continue to use their Title IV funds but any new students must find another way to pay if they choose to enroll.

Next, compensation limitations. To prevent executives from cashing-out on the backs of students, at this point ITT is prohibited from awarding raises and paying bonuses or severance payments to its leadership and finally importantly notification requirements.

ITT must inform the Department of any significant financial events including violations of existing loan agreements or extraordinary financial losses within

10 days of such events so that we have the most up-to-date information possible as we move forward.

We believe that these actions will protect both students and taxpayers and in light of ITT's responsibilities to the Department, to accreditors and to states. Today we posted information for current ITT students on our Homeroom blog and will continue to share updates as our oversight develops through FSA.

If you're a current ITT student, you have some options. You can continue your courses at ITT with your federal student aid and there's no immediate change to your program. You can transfer credits to a new school if that school accepts those credits and complete your education there.

And you could pause your education and wait to see how this matter resolves itself in the coming months. If ITT closes before a student finishes their program and they don't transfer their credits, those students will likely be eligible to discharge federal loans. I look forward to talking with you further. I'll turn it back over to Kelly for questions.

Kelly Leon: Thank you Secretary King and Undersecretary Mitchell. Now we'll open it up to questions from our participants. Operator, would you please inform the group how to ask questions?

Coordinator: Certainly, speakers. I will now conduct the question-and-answer session. Participants, to ask a question, you may press star followed by the number 1. Please unmute your phone and record your name clearly when prompted as your name is required to introduce your question.

To withdraw your request you may press star followed by the number 2. Our first question comes from the line of Shahien Nasiripour of Bloomberg. Sir, go ahead. Your line is now open.

Ted Mitchell: Shahien, you may be on mute.

Coordinator: Okay, we're going to go with Lane Filler of Newsday. Go ahead, your line is now open.

Lane Filler: And I cannot be muted. Hello?

Ted Mitchell: Hi, Lane.

Lane Filler: Hi, how are you all?

John King: Good.

Lane Filler: Just wanted to ask a couple of quick questions to make sure I understand. First thing, would you say that this new move reflects an increase of scrutiny on IT&T or a degradation of their quality?

John King: This is the latest step in a series of steps the Department is taking with respect to ITT. We took an earlier action to require them to increase their letter of credit and took another action with respect to letter of credit and then this latest action today really reflects the totality of risk factors that we see.

It is important to note that last week their accreditor indicated that they are not in compliance with the accreditor standards and are unlikely to become in compliance with their standards and that was with respect to a whole range of academic and operational issues.

Kelly Leon: Thanks so much. Operator, we'll take the next question, please.

Coordinator: Thank you. Our next question comes from the line of Mr. Shahien Nasiripour of Bloomberg. Sir, go ahead, your line is now open.

Shahien Nasiripour: Hi, can you guys hear me this time?

Kelly Leon: Yes, we can Shahien.

Shahien Nasiripour: Oh, excellent, okay. Hi, Shahien with Bloomberg. Two questions. The first is so ITT according to its most recently quarterly filing has about \$70 million in cash and cash equivalents on hand. Your demand represents about double its free cash.

The company's been providing the Department with projections of its 13-week cash flows every two weeks. Are you all confident that ITT can afford to meet this new demand within the next 30 days? That's my first question.

My second question is could you walk us through your thinking in terms of, you know, just a few weeks ago the Department relaxed its previous letter of credit demand, spreading-out the payments over time and giving the company an opportunity to actually provide less cash than originally requested because of the change in the calendar year but now you all have reversed that position. Why is that?

John King: So first, the amount that we're requiring for the letter of credit is based on the amount we think is necessary to protect the interests of taxpayers and ITT will need to comply to continue to be able to access Title IV dollars for their currently-enrolled students.

Secondly, the intervening event was this recent continued show-cause from ACICS that actually expanded the scope of the show-cause and indicated that despite their submission of materials, ITT could not demonstrate that they were in compliance with the accreditor requirements and were unlikely to come into compliance with the accreditor requirements.

So we evaluated that along with the totality of circumstances with respect to ITT and determined the appropriate next steps.

John King: Thank you for the question.

Kelly Leon: Thanks so much. Operator, we'll take next question.

Coordinator: Our next question comes from the line of Mr. Josh Mitchell of the Wall Street Journal. Sir, go ahead, your line is now open.

Josh Mitchell: Yes, hi, thanks. Can you detail the bad behavior that you referred to, I mean, it was pretty vague what you were describing but what exactly are they accused of? What do you guys think that they've done and then I need to freshen-up on education and Department law here but what authority do you guys have to impose these compensation caps?

John King: So the issues that were identified in the show-cause are outlined in the press release. They include minimal eligibility requirements for compliance with all applicable laws and regulations, federal and state student financial aid administration requirements, financial stability including having adequate revenues and assets to meet its responsibilities, administrative capacity including overall management and recordkeeping, admissions and recruitment standards, requirements for student achievement as measured by retention,

placement and licensure passage rate and institutional integrity as manifest in the efficiency and effectiveness of its overall administration of the institution.

Those are all standards that are identified in the show-cause and where their accreditor concluded that they were not in compliance and unlikely to become in compliance based on ITT's submission of materials.

Our authority with respect to higher education is drawn from of course the Higher Education Act. I will point-out that ITT is operating under a PPPA and to continue that PPPA we are requiring them to meet these conditions.

Kelly Leon: Thanks so much, Secretary King. Operator, we'll take next question, please.

Coordinator: Absolutely, ma'am. Our next question comes from the line of Kim Hefling of Politico. Go ahead, your line is now open.

Kim Hefling: Hello, thanks for your time this afternoon. As you look at this situation and compare it to Corinthian, what lessons were learned in terms of the Department's handling of this and what does it mean for these students compared to like the Corinthian students moving forward?

John King: Well, I'll let Ted add but I would say the decision here is based on totality of circumstances with respect to ITT and in particular the series of actions that we have taken followed by this most recent expansion of the show-cause by the accreditor.

I do think in the Corinthian case, you know, the Department took a series of actions that ultimately resulted in closure and sale of pieces of Corinthian. Here again the administration is taking strong action with respect to an entity

that is not fulfilling its responsibility to students or taxpayers. Ted, I don't know if you want to add to that at all.

Ted Mitchell: Yes, sure. Hi, Kim, thanks for the question so I think in the Corinthian experience we certainly learned how important it is to communicate directly with students and so we're beginning that process today with a blogpost that's going-up this afternoon, amendments to FSA's announcement page.

We learned that it's really important to stay in contact with students and we intend to do that and we'll deploy all of the tools that we learned to use in the Corinthian matter. I think it's also clear as John is indicating that rather than looking for sort of a single precipitating cause, we are looking at the totality of the evidence and the experience with ITT as we take this action.

Kelly Leon: Thank you both Secretary King and Undersecretary Mitchell. Operator, can you please remind our participants how to ask question?

Coordinator: Absolutely, ma'am. Once again to our participants, to ask a question you may press star followed by the number 1.

Kelly Leon: We'll go ahead and take next question.

Coordinator: Our next question comes from the line of Lane Filler with Newsday. Go ahead, your line is now open.

Lane Filler: Sorry, I meant to ask both of these at the same time. I just want to make sure I understand that if you are currently a student at IT&T and you are happy with everything, you are going to be able to get continued federal financial aid that will be paid to IT&T. It's only for new students that cannot get this, is that correct?

John King: Yes, so the step here is that new students will not be allowed to enroll using federal financial aid and we're taking a series of actions to ensure more strict financial oversight of ITT but current students will have the option to continue.

They also might choose to transfer to another institution and that institution would determine how their credits were evaluated. One of our goals in the blogpost that Ted described to provide good information for our students and we can make sure they can get that.

Kelly Leon: Great, operator let's go ahead and take next question, please.

Coordinator: Our next question comes from the line of Allysia Finley of the Wall Street Journal. Ma'am, go ahead, your line is now open.

Allysia Finley: Hi, I had a couple of questions. First, what happens if ITT cannot provide the - or put-up the \$150 million? What happens? Is federal aid completely cut off, and second, what is the status of the Department's recognition of the accreditor? I know earlier in this year there was a recommendation to withdraw that accreditor's recognition.

John King: So on the first question, as I mentioned ITT is operating under a provisional program participation agreement, PPPA and if they were not to comply with the terms of continuing the PPA, they would not be able to access federal financial aid. Given the appeal with respect to ACICS, I can't comment on ACICS specifically but I'll let Ted respond.

Ted Mitchell: Thanks for the question. So the timeline on ACICS... The NACIQI recommendation has been made and the Department recommendation is on

file. Both of those are in the hands of the senior designated official in the Department to review those and make a Departmental determination.

That determination is due toward the end of September and following that there are subsequent steps that would be in play depending on the nature of that decision.

Kelly Leon: Thank you so much. Operator, let's go ahead and take next question, please.

Coordinator: Our next question comes from the line of Josh Mitchell of the Wall Street Journal. Go ahead, your line is now open, sir.

Josh Mitchell: Yes, okay, I think you answered a question earlier but I do have a question, I mean, are you guys prepared for them to, I mean, it sounds like this is a death sentence. Am I wrong for interpreting it that way and are you guys, you know, was the intention to close this school down?

I mean, that was the criticism last year with Corinthian that, you know, you guys basically, you know, shut them down. I mean, is that what you're trying to do here?

John King: Yes, again, we're taking the steps necessary here to protect taxpayers and students. Institutions do sometimes close and the Department has in place procedures for managing school closure. In fact, all institutions are required by their accreditor to have teach-out plans in case there were to be a closure.

So you know, if that were to occur there are adequate systems in place to respond but these actions are designed simply to protect taxpayers and students. Ted, do you want to add to that at all?

Ted Mitchell: No, I think that's just right, John, thanks.

John King: Okay.

Kelly Leon: Thanks so much and operator I believe we have one more question on the line. This'll be the last question.

Coordinator: Yes, our last question comes from the line of Shahien Nasiripour of Bloomberg. Sir, go ahead, your line is now open.

Shahien Nasiripour: Hi, thanks for taking another question. I'm just going to repeat the question I asked earlier because I felt that it wasn't answered. The Education Department has been getting these 13-week projected cash flow statements from the company on a fairly regular basis but your cash demand is double what the company has now.

I'll ask the question again. Are you confident that the company can stump-up the required letter of credit within the next 30 days?

John King: Again, our action is based on what we think is necessary to protect the interests of taxpayers and students.

Kelly Leon: That's a great note to end on. Thanks so much for everyone who joined today. Thanks so much Secretary King and thanks so much Undersecretary Mitchell. For those who still have questions or think of others, e-mail us at press@ed.gov. This concludes today's call.

Coordinator: Thank you very much speakers and that concludes today's conference everyone. Thank you very much for joining. You may now disconnect your lines.

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