

February 10, 2011

The Honorable Tom Harkin
Chairman
United States Senate Committee on Health, Education, Labor, and Pensions
428 Dirksen Senate Office Building
Washington, DC 20510-6300

Re: Floor Statement of February 7, 2011

Dear Chairman Harkin:

I am writing on behalf of my client, ITT Educational Services, Inc. (“ITT” or the “School”). I write to respond to certain statements you made about ITT in your floor statement of February 7, 2011.

In your statement, you cited several documents produced by ITT to the Senate Health, Education, Labor, and Pensions Committee that appear to encourage or utilize high-pressure sales tactics to enroll students. ITT agrees that it is inappropriate to use high-pressure sales techniques to recruit students. The conduct suggested by the documents referenced in your statement was not sanctioned by ITT and does not reflect ITT’s standards and principles. Nevertheless, ITT sincerely regrets that the conduct was suggested, and it has opened an investigation to determine the extent of the suggested conduct and to respond appropriately and decisively. We wish to make it clear that, when ITT finds instances of improper conduct by an employee, ITT takes swift disciplinary action, up to and including termination of employment.

ITT is dedicated to helping students succeed through the pursuit of a high-quality postsecondary education promoted by the School’s training and compliance efforts. ITT has a rigorous training and enforcement program that includes:

- a vigorous 19-module training program that all admissions representatives must complete and demonstrate their knowledge and compliance prior to meeting with any prospective student;
- standardized, enterprise-wide recruitment presentations;
- annual internal audits and enterprise risk-management assessments and audits of recruitment practices;
- quarterly reviews and observations of all admissions representatives;
- a toll-free telephone number for reporting any suspected ethics concerns;
- a “mystery shopper” program that involves multiple shops of each campus annually;

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- a requirement that all admissions representatives read, understand and acknowledge a statement of legal and ethical principles that they must follow;
- quarterly certifications by managers regarding compliance with company policies and procedures;
- an enterprise risk-management program based on the widely recognized and accepted framework for internal control and risk mitigation of the Committee of Sponsoring Organizations; and
- a code of business conduct and ethics, and a course on the code that all employees must complete biennially.

In your floor speech you also stated that ITT's three-year cohort default rate—as calculated by the U.S. Department of Education—is at 30 percent. ITT has a robust system in place for curbing student loan defaults and ensuring that borrowers receive all of the information they need to manage their debts responsibly. ITT is disappointed, however, that you did not present the cohort default rates in their proper context.

The recently released U.S. Department of Education figures are unofficial, trial numbers, not official rates. There are widespread, though anecdotal, stories that the default rate increases may have been caused, in some substantial part, by the recent major changes in loan processing approaches resulting from the sale of FFEL loans to the U.S. Department of Education under the “put program” authorized under the Ensuring Continued Access to Student Loans Act. The sale of FFEL loans resulted in the servicing of sold loans being transferred, in some cases, multiple times. These servicing transfers led to confusion by the borrowers that may have led to increased student loan defaults. The transfers also made it more difficult for schools to help their students avoid default. The U.S. Department of Education should provide an analysis of how those loan-processing changes impacted student loan default rates, and take immediate action to offer special assistance to affected borrowers who may be headed toward loan defaults that are avoidable.

Moreover, student loan cohort default rates follow the same general trends of consumer loan defaults for other forms of consumer lending, such as credit cards and home mortgages. Accordingly, student loan cohort default rates tend to rise and fall with the economy and the ability of borrowers to secure and keep good jobs and incomes. An economy marked by near double digit unemployment for a sustained period has contributed substantially to an increase in defaults.

While sharing your concern about rising student loan default rates, ITT also notes that many career college and university students lack the socioeconomic advantages enjoyed by students who attend other types of institutions of higher education. It is well-established that economic challenges become most pronounced in difficult economic times. Thus, career

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colleges and universities having default rates that are, on average, higher than other dissimilarly situated institutions should not be unexpected. Indeed, independent research indicates that default rates are primarily correlated with the composition of the student population, not a schools' tax status. ITT suggests that a proper understanding of the issue of student loan defaults would have been enhanced, if the U.S. Department of Education, in its recent data release, had conducted an analysis of default rates based on school's student population demographic.

Finally, you state that "[Students] are there for a few weeks, maybe a few months, but when they drop out and when they default, ITT keeps the money." To the extent this statement suggests that ITT does not return or refund federal financial aid or even private funds when required to do so, it is incorrect. ITT complies with all applicable laws and accrediting requirements regarding the return of federal financial aid. When a student withdraws from a program, ITT remits Title IV funds to the government for any portion of the program that the student did not attend in the manner prescribed by federal law. In this respect, ITT's Title IV return policy is no different from that of other public or private institutions.

In addition, a student is only obligated for the tuition associated with courses that he/she attends. ITT does not retain any tuition for any courses attended by students in excess of the amount permitted by state and accrediting commission requirements. The applicable refund policy varies by state and is contained in each campus's school catalog and in each student's enrollment agreement with the School.

Thank you again for your attention to this matter. Please do not hesitate to have your staff contact me with any questions you may have.

Respectfully,



Michael D. Bopp