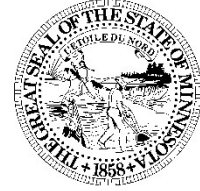




**STATE OF OREGON**  
OFFICE OF THE ATTORNEY GENERAL

**STATE OF MINNESOTA**  
OFFICE OF THE ATTORNEY GENERAL



**ELLEN F. ROSENBLUM**  
ATTORNEY GENERAL

**KEITH ELLISON**  
ATTORNEY GENERAL

October 17, 2019

The Honorable Betsy DeVos  
Secretary of the U.S. Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202

Dear Madam Secretary:

We, the Attorneys General of Oregon, Minnesota, California, Colorado, Connecticut, Delaware, District of Columbia, Florida, Hawaii, Idaho, Illinois, Iowa, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Jersey, New Mexico, New York, North Carolina, Pennsylvania, Rhode Island, South Dakota, Tennessee, Vermont, Virginia, Washington, and Wisconsin, respectfully request that you exercise your authority to extend the closed school discharge timeframe and take immediate action to discharge federal student loans for student borrowers who were enrolled at schools operated by Dream Center Education Holdings, LLC (“DCEH”).<sup>1</sup> As Secretary of Education, you have discretion to relieve the student borrowers harmed as a result of the extraordinary circumstances outlined in this letter.

A wide variety of regulators, including the U.S. Department of Education (“ED”), have found that DCEH violated numerous federal and state laws, was noncompliant with accreditors, and grossly mismanaged its schools—including Argosy University (“Argosy”), the Art Institutes (“Ai”), and South University (“South”)—leading to the schools’ recent closures. These closures prevented students from completing their programs of study, leaving borrowers with substantial student loan debt and nothing to show for it.

Federal law provides for the discharge of federal student loan debt under the “closed school discharge” rule.<sup>2</sup> Under closed school discharge, former students may be eligible for a 100 percent discharge of their William D. Ford Federal Direct Loan Program loans, Federal Family Education Loan Program loans, or Federal Perkins Loans, if they were unable to complete their program because their school closed.<sup>3</sup> Closed school discharge, however, only allows discharge for students: (a) who were enrolled when the school closed; (b) who were on an

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<sup>1</sup> We request discharge on behalf of borrowers as well as any endorsers of federal student loans. For example, a parent who borrowed federal student loans on a student’s behalf.

<sup>2</sup> 34 C.F.R. §§ 685.214, 682.402, 674.33 (2019).

<sup>3</sup> *Closed School Discharge*, FED. STUDENT AID, <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/closed-school> (last visited Oct. 16, 2019).

approved leave of absence when the school closed; or (c) withdrew within 120 days of the school's closure, *unless the Secretary recognizes a longer period*.<sup>4</sup>

As detailed below, the misconduct and mismanagement by DCEH prevented students from obtaining degrees they worked hard to earn. Now those students are unfairly left to repay federal student-loan debt from their time attending the failed schools. We thus ask you to recognize the exceptional circumstances of the schools' closures and exercise your authority to extend the 120-day period to the date DCEH began to operate the schools. This would allow these students to restart their education and their lives.

**I. Tens of thousands of student borrowers were unable to complete their programs of study because DCEH's mismanagement led schools to close.**

Argosy, Ai, and South's closures were the culmination of a series of acts of mismanagement, leaving tens of thousands of student borrowers unable to complete their programs of studies through no fault of their own.

As you are likely aware, the previous owner of Argosy, Ai, and South—Education Management Corporation (“EDMC”)—engaged in misconduct that set the schools on a path toward financial instability.<sup>5</sup> In March 2017, EDMC announced it was in the process of selling Argosy, Ai, and South to the Dream Center Foundation, a California-based nonprofit with no experience in higher educational programming. At the time of the proposed sale, there were serious questions raised as to whether and how the Dream Center Foundation's newly created subsidiary, DCEH, would be able to operate programs serving 60,000 students and employing 15,000 faculty and staff across the United States. EDMC left the schools in financial distress and DCEH had no experience managing institutions of higher education. In fact, the previous year ED prevented the Dream Center Foundation from purchasing ITT Tech, a similarly troubled chain of for-profit schools.<sup>6</sup> Members of Congress, numerous consumer groups and regional accreditors raised strong concerns about the sale.<sup>7</sup>

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<sup>4</sup> *See id.*; 34 C.F.R. §§ 685.214, 682.402, 674.33 (2019).

<sup>5</sup> In November 2015, EDMC agreed to pay \$95.5 million to the U.S. Department of Justice and several states based on the DOJ's findings that EDMC unlawfully recruited students by running a high-pressure boiler room where admissions personnel were paid based purely on the number of students they enrolled. *For-Profit College Company to Pay \$95.5 Million to Settle Claims of Illegal Recruiting, Consumer Fraud and Other Violations*, OFFICE OF PUB. AFFAIRS, U.S. DEP'T OF JUSTICE (Nov. 16, 2015), <https://www.justice.gov/opa/pr/profit-college-company-pay-955-million-settle-claims-illegal-recruiting-consumer-fraud-and>. Also in November 2015, Attorneys General from 39 states and D.C. settled allegations of fraud and abuse by EDMC, including claims that EDMC (a) used deceptive solicitations touting educational benefits that were available to few students; (b) engaged in extremely high-pressure recruitment; (c) falsely claimed that programs were accredited by an accreditor necessary to obtain licensure in certain professions; and (d) misrepresented job-placement and graduation rates. The settlement required EDMC to undertake compliance obligations, including disclosures, prohibitions on deceptive recruiting practices, and oversight by an administrator. Stipulated General Judgement, *State of Or. v. Educ. Mgmt. Corp.*, No. 15CV30936 at ¶ 74 (OR. Cir. Ct. Nov. 17, 2015).

<sup>6</sup> Michael Vasquez, *The Nightmarish End of the Dream Center's Higher-Ed Empire*, THE CHRON. OF HIGHER EDUC., (Mar. 9, 2019), <https://www.chronicle.com/article/The-Nightmarish-End-of-the/245855>.

<sup>7</sup> *See* Letter from Senators Warren, Durbin, Brown, Harris and Congresswoman DeLauro to WASC Senior College and University Commission President Mary Ellen Petrisko regarding acquisition by Dream Center Education Holdings of institutions formerly owned by for-profit Education Management Corporation (June 22, 2017), [https://www.durbin.senate.gov/imo/media/doc/2017-6-22\\_Letters\\_to\\_accreditors\\_re\\_EDMC\[1\].pdf](https://www.durbin.senate.gov/imo/media/doc/2017-6-22_Letters_to_accreditors_re_EDMC[1].pdf); Letter from

Federal regulations required approval by ED of the change in ownership of the schools and their conversion to nonprofit status.<sup>8</sup> The change in ownership also required approval by the institution’s accreditors, which—for the numerous Argosy, Ai, and South campuses—included various national and regional accreditors.<sup>9</sup> While ED gave tentative permission for the sale to proceed on October 17, 2017, it made clear that it did not formally approve the sale or conversion to nonprofit status, and that it would have to undertake a comprehensive review of DCEH’s capabilities before the sale and conversion could be considered final:

[F]ormal approvals of the [sale] and nonprofit institution status are contingent on the [] parties’ compliance with the requirements of 34 C.F.R. § 600.20(g) and (h), the Department’s review and approval of any submissions required by those regulatory provisions, and any further documentation and information requested by the Department following the [sale] or in th[e] Preacquisition Review Response, including all documents related to the Transaction and the Institutions’ conversion to nonprofit status.<sup>10</sup>

ED also noted that DCEH would need to: “submit additional documentation and information to confirm the other elements of nonprofit status,” “need to establish that the Institutions’ net income does not benefit any party other than the Institutions,” and “confirm . . . that control is not concentrated in any person (or group of persons) who might benefit financially from the Institutions’ operations.”<sup>11</sup>

DCEH, however, did not improve the problems it inherited from EDMC. In fact, the schools rapidly deteriorated under DCEH’s management. By the spring of 2018, DCEH was projecting operating losses of \$38 million for 2018, \$64 million for 2019, and \$69 million for 2020.<sup>12</sup>

On July 2, 2018, DCEH announced the closure of 30 of its ground campuses of Argosy, Ai, and South, affecting half of its total schools, and a quarter of its total enrollment. The closures reportedly included Argosy campuses in Alameda (California), Dallas, Denver,

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thirty consumer organizations to U.S. Secretary of Education Betsy DeVos regarding whether it is in the public interest to allow continued taxpayer funding of the colleges under the new owner (May 4, 2017), <https://tcf.org/content/commentary/joint-letter-questions-new-ownership-predatory-colleges/>; Daniel Moore, *Accreditor Rejects EDMC’s Sale of Art Institute of Pittsburgh for ‘Insufficient Information’*, PITTSBURGH POST-GAZETTE (July 13, 2017), <https://www.post-gazette.com/news/education/2017/07/13/Accreditor-rejects-EDMC-deal-due-to-insufficient-evidence-Dream-Center-Art-Institute/stories/201707130142>.

<sup>8</sup> See 34 C.F.R. § 600.31(d) (2019).

<sup>9</sup> 34 C.F.R. § 600.20(g)(2)(ii) (2019).

<sup>10</sup> Letter from Michael Frola, U.S. Dep’t of Educ., to Brent Richardson, Dream Ctr. Educ. Holdings, LLC, regarding the preacquisition review of the proposed change in ownership for Dream Center and its affiliates, at 2 (Sept. 12, 2017), <https://www.republicreport.org/wp-content/uploads/2018/10/ED-DCEH-EDMC-09-12-17.pdf>.

<sup>11</sup> *Id.*

<sup>12</sup> Ben Unglesbee, *How Buying the Art Institutes Brought Dream Center to the Brink of Collapse*, EDUC. DIVE, (Jan. 25, 2019), <https://www.educationdive.com/news/how-buying-the-art-institutes-brought-dream-center-to-the-brink-of-collapse/546627/>.

Nashville, Ontario, Salt Lake City, San Diego, Sarasota (Florida), and Schaumburg (Illinois); Ai campuses in Arlington, Charleston, Charlotte, Chicago, Denver, Fort Lauderdale, Indianapolis, Nashville, Novi (Michigan), Philadelphia, Phoenix, Raleigh-Durham, Portland, San Bernardino, San Francisco, Santa Ana, Sacramento, and Schaumburg; and South campuses in Novi, High Point (North Carolina), and Cleveland.<sup>13</sup> Most of these schools, however, did not officially close until late December 2018.

On March 8, 2019, the Art Institutes in Seattle, Pittsburgh, Hollywood, and San Diego, closed, as did most Argosy campuses, reportedly including the Argosy campuses of Phoenix, Phoenix ATS Chandler, San Francisco Bay, Los Angeles, Tampa, Atlanta, Clay National Guard Center, Honolulu, Maui, Hilo, Twin Cities, Dallas, Salt Lake City, UT National Guard Base SLC, Washington D.C., and Seattle.<sup>14</sup>

Ultimately, compared to the approximately 60,000 students enrolled at DCEH campuses at the time DCEH acquired the schools, just 9,609 students were actively enrolled in the schools at the time of closure.<sup>15</sup> Furthermore, just one percent of students enrolled in the schools at the time of closure have successfully transferred elsewhere.<sup>16</sup>

## **II. The Secretary should extend the 120-day period because exceptional circumstances related to the DCEH schools' closings justify an extension.**

Federal law provides for the discharge of federal student loans when the student is unable to complete the program due to a school's closure.<sup>17</sup> The law is aimed at preventing students from being liable for repayment of federal student loan debt when, because of a school's failures of compliance and financial reliability, the student is unable to obtain their degree. In accordance with this policy, the law properly recognizes that students who withdrew from the closed school before its official closure date should be entitled to such relief.<sup>18</sup> While the law sets a default withdrawal period of 120 days from the school's official closure date for determining who is eligible for relief, it makes clear that the Secretary can and should extend this 120-day period whenever such an extension is justified by the circumstances:

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<sup>13</sup> Doug Lederman, *Dream Center to End Enrollment at 30 Campuses*, INSIDE HIGHER ED, (July 3, 2018), <https://www.insidehighered.com/quicktakes/2018/07/03/dream-center-end-enrollments-30-campus>.

<sup>14</sup> ED lists four Argosy campuses as closed in March 2019, including Phoenix, San Francisco, Dallas, and Salt Lake City. *Has Your School Closed? Here's What to Do.*, FED. STUDENT AID, <https://studentaid.ed.gov/sa/about/announcements/closed-school> (last visited Oct. 16, 2019). However, conflicting reports state they closed in December 2018. See Michael Vasquez, *Former Dream Center Students Could Lose Out on Loan Forgiveness Thanks to Education Dept.'s Mistake*, THE CHRON. OF HIGHER EDUC. (June 19, 2019), <https://www.chronicle.com/article/Former-Dream-Center-Students/246526>.

<sup>15</sup> Hon. Betsy DeVos QFR Responses to March 28, 2019 LHHS Hearing, Questions Submitted by Senator Patty Murray, p. 43, <https://www.help.senate.gov/imo/media/doc/SenMurrayQFRResponses32819LHHShearing.pdf> (last visited Oct. 16, 2019).

<sup>16</sup> *Id.*

<sup>17</sup> 34 C.F.R. §§ 685.214(c)(1)(i)(B), 682.402(d)(1)(i), 674.33(g)(4)(i)(B) (2019).

<sup>18</sup> *Id.*

The Secretary may extend the 120-day period if the Secretary determines that exceptional circumstances related to a school's closing justify an extension.<sup>19</sup>

The law cites examples of circumstances that may justify extending the look-back period, including adverse action by an accreditor, the institution's "discontinuation" of a substantial amount of academic programming, action by states to revoke a school's license to operate or award academic credentials, and findings by state and federal agencies that the school violated state or federal law.<sup>20</sup> These circumstances are not exhaustive and clearly demonstrate that students who justifiably withdrew from a school before it closed should not be obligated to repay loans they took out to obtain a degree they cannot receive.<sup>21</sup>

Here, several of these circumstances exist and would have provided every reason why students could not trust the continued viability of DCEH schools prior to their closure. Indeed, since taking over Argosy, Ai, and South, DCEH has engaged in multiple forms of misconduct to the detriment of its students, including the following:

- In late 2017, DCEH programs deemed "failing" under the Department's Gainful Employment Rule triggered DCEH's obligation to post Gainful Employment failure warnings, but DCEH did not put them up as required. The Settlement Administrator appointed by a bipartisan group of state Attorneys General ("Settlement Administrator") reported, according to personnel involved, that a DCEH manager expressly instructed employees not to comply with federal regulations because doing so would hurt enrollment.<sup>22</sup> This failure was not only a violation of ED regulations to remain eligible to receive Title IV federal financial aid,<sup>23</sup> it was also a violation of the settlement with 39 states and the District of Columbia.<sup>24</sup>
- Despite lacking approval to the conversion to non-profit status, DCEH falsely boasted to students that it was a non-profit educational institution. For example, DCEH stated on its campus websites: "NON-PROFIT=EVEN MORE . . . Even more affordable. Even more accessible. Even more invested."<sup>25</sup> A "fact sheet" posted on Argosy's website also stated that the school was now a "nonprofit academic institution." These were false or misleading statements in violation of the consent judgment, thereby violations of the settling states' laws.
- In January 20, 2018, the Higher Learning Commission downgraded the accreditation status of the Illinois Institute of Art and the Art Institute of Colorado, which meant

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<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Id.*

<sup>22</sup> Third Annual Report of the Settlement Administrator Under the Consent Judgments with Education Management Corporation (EDMC) as Succeeded by Dream Center Education Holdings, Report by Settlement Administrator Thomas J. Perrelli, at 29 (October 1, 2017 through September 30, 2018).

<sup>23</sup> 34 C.F.R. § 668.401 (2019).

<sup>24</sup> *State of Or. V. Educ. Mgmt. Corp.*, *supra* note 5, at ¶ 74.

<sup>25</sup> David Halperin, *Inside a For-Profit College Conversion: Lucrative Ties, Troubling Actions*, REPUBLIC REP. (May 16, 2018), <https://www.republicreport.org/2018/inside-a-for-profit-college-conversion-lucrative-ties-troubling-actions/>.

that the schools were unaccredited. As the Settlement Administrator found, however, DCEH did not inform students that the schools lost their accreditation for several months—during which time students registered for additional terms and incurred additional debts, for credits that could not be used. The loss of accreditation meant that the credits would not transfer to other schools. Furthermore, both campuses announced they would be closing at the same time they announced the loss of accreditation, meaning the credits could not even be used to complete degrees at the Illinois Institute of Art or the Art Institute of Colorado.<sup>26</sup>

- On March 15, 2018, Ai publicly announced a partnership with an unaccredited, non-degree program—a “coding boot camp”—called “Woz U.” The Settlement Administrator reported that “DCEH provided or endorsed misleading information to prospective students regarding the nature of the partnership (whether an Ai program or something else), the status that completers of the Woz U boot camp would obtain (whether ‘graduates’ or something else), and the job placement successes that previous completers had enjoyed.”<sup>27</sup> Woz U, a for-profit entity, was closely tied to DCEH’s leadership, DCEH’s CEO had a financial interest in the company, and DCEH’s Chief Regulatory and Government Affairs Officer served as a Woz U spokesperson. Although DCEH explained it was simply providing space for Woz U, the contract between DCEH and Woz U suggested otherwise.<sup>28</sup> Ultimately, DCEH did not proceed with the partnership. The short-term relationship raised questions regarding DCEH compliance with federal regulations for nonprofit schools.<sup>29</sup> It also raised questions about DCEH leadership’s use of the company’s nonprofit status to benefit separate for-profit projects.
- On July 2, 2018, DCEH announced closures of 30 ground campuses over email.<sup>30</sup> The email did not provide the dates on which the schools would close, or information regarding future options for students. DCEH only vaguely told students that their schools were closing, sometime.<sup>31</sup> The Settlement Administrator reported that DCEH advised “that it did not provide students with additional information because during

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<sup>26</sup> Third Annual Report of the Settlement Administrator, *supra* note 22, at 20-30, 43-44; Letter from Illinois Attorney General Kwame Raoul and Colorado Attorney General Phil Weiser to Secretary Betsy DeVos regarding group discharge for Illinois Institute of Art and Art Institute Colorado students (June 3, 2019), [http://www.illinoisattorneygeneral.gov/pressroom/2019\\_06/Letter\\_to\\_ED\\_Re\\_Group\\_Discharge\\_for\\_Illinois\\_Institute\\_of\\_Art\\_and\\_Art\\_Institute\\_Coloradostudents.pdf](http://www.illinoisattorneygeneral.gov/pressroom/2019_06/Letter_to_ED_Re_Group_Discharge_for_Illinois_Institute_of_Art_and_Art_Institute_Coloradostudents.pdf); Daniel Moore, *Deal Under Scrutiny as Art Institutes Face Accreditation Setbacks*, PITTSBURGH POST-GAZETTE (June 19, 2018), <https://www.post-gazette.com/business/career-workplace/2018/06/19/Deal-under-scrutiny-Art-Institutes-accreditation-setbacks-dream-center/stories/201806140022>.

<sup>27</sup> Third Annual Report of the Settlement Administrator, *supra* note 22, at 3.

<sup>28</sup> DCEH was to pay Woz U a \$20,000 start-up fee, \$10,000 for every additional campus on which Woz U opened, “30.00% of the actual amount of money received in payments” for tuition, a \$1500 “Admissions Support” fee, plus additional per-student fees for finance and career services assistance, and a 10% mark-up on certain Woz U’s lead generation costs. DCEH also agreed to incur the costs of hiring and paying the Woz U instructors. Third Annual Report of the Settlement Administrator, *supra* note 22, at 24 (citing Exeter Education – Dream Center Education Holdings, LLC Master Services Agreement at Ex. A ¶¶ B.4, K.3 & Tbl. 1, I (Mar. 7, 2018)).

<sup>29</sup> Third Annual Report of the Settlement Administrator, *supra* note 22, at 24 (citing *Overview of Inurement/Private Benefit Issues in IRC 501(c)(3)*, INTERNAL REVENUE SERV., <https://www.irs.gov/pub/irs-tege/eotopic90.pdf>).

<sup>30</sup> See Third Annual Report of the Settlement Administrator, *supra* note 22, at 31.

<sup>31</sup> *Id.* at 31-32.

this time, the Department of Education instructed DCEH not to announce that the schools were closing.”<sup>32</sup>

- On July 12, 2018, the North Carolina Attorney General’s Office wrote to Diane Jones, Acting Assistant Secretary of the Office of Postsecondary Education, to express concern about the impending closures of the North Carolina campuses. The North Carolina Attorney General noted that information on closed school discharge was “noticeably absent” from DCEH’s closure announcement, and asked for confirmation of closed school discharge eligibility.<sup>33</sup>
- The Settlement Administrator reported that in late July 2018, DCEH distributed guidance to its campus presidents, with three options DCEH was making available for students whose schools were closing.<sup>34</sup> Importantly, the information initially made available to students did not include clear information about closed school discharge.<sup>35</sup> The failure to provide timely information about closed school discharge, particularly because of the 120-day default timeframe for eligibility, combined with the failure to provide information about expected or planned closure dates, was consequential. Students who chose to withdraw upon the July 2, 2018 announcement to avoid incurring further debts thought they were making a sound financial choice; information about closed school discharge could have informed students staying enrolled longer would have been a better financial choice.<sup>36</sup>
- In mid-August 2018, six weeks after DCEH announced the closings, DCEH emailed students about closed school discharge.<sup>37</sup> However, that email failed to include a clear statement of the schools’ closing dates.<sup>38</sup> Thus, students would not know how long to stay in school if they ultimately wanted to take advantage of closed school discharge.<sup>39</sup> The Settlement Administrator reported that it was not until September 20, 2018—two-and-a-half months after the closing announcement—that DCEH issued clear information to students about closed school discharge and closing dates.<sup>40</sup>

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<sup>32</sup> *Id.* at 32.

<sup>33</sup> Letter from Matt Liles, State of North Carolina, Dep’t of Justice, to Diane Jones, Office of Postsecondary Educ. U.S. Dep’t of Educ., regarding the closure of Dream Center’s North Carolina campuses (July 12, 2018) (on file with the State of North Carolina, Dep’t of Justice). The North Carolina Attorney General wrote a second letter to Ms. Jones on October 9, 2018, following up on its July 2018 letter, and asking the Secretary to extend closed school discharge eligibility to North Carolina students. *See* Letter from Matt Liles, State of North Carolina, Dep’t of Justice, to Diane Jones, Office of Postsecondary Educ. U.S. Dep’t of Educ., regarding Dream Center and a request to extend closed school discharge eligibility due to exceptional circumstances (Oct. 9, 2018) (on file with the State of North Carolina, Dep’t of Justice).

<sup>34</sup> *Id.*

<sup>35</sup> *Id.* at 33.

<sup>36</sup> *Id.*

<sup>37</sup> *Id.*

<sup>38</sup> *Id.* at 33-34.

<sup>39</sup> *Id.*

<sup>40</sup> *Id.* at 34.

- In late December 2018, as—according to ED—DCEH was threatening receivership, ED placed DCEH schools on “route pay.”<sup>41</sup> Route pay is a protection put in place so that federal funds would not be automatically released to DCEH, but would have to be manually released by ED.<sup>42</sup> ED also provided advance notice to DCEH that its schools would be placed on “heightened cash monitoring 2” (“HCM2”) status in the event of a receivership.<sup>43</sup> On HCM2, the schools must disburse loans and grants to students from the schools’ own funds before requesting a reimbursement of those funds from ED.<sup>44</sup>
- In early 2019, the regional accreditor for Ai-Pittsburgh placed the school—which also operated Ai’s Online Division—on probation due to “noncompliance [that] is sufficiently serious, extensive or substantial that it raises concern about the institution’s capacity to educate students and sustain itself in the long term.”<sup>45</sup> Within months, the accreditor formally acted to end the accreditation for Ai-Pittsburgh, effective March 13, 2019. When announcing the end of the school’s accreditation, the accreditor noted that Ai-Pittsburgh closed in December while on show cause, without prior approval, and without an approved teach-out plan.<sup>46</sup>
- On January 7, 2019, DCEH sold some Ai and all South campuses to an entity called the Education Principle Foundation, a Delaware nonprofit known as the Colbeck Foundation until December 31, 2018. The Colbeck Foundation was related to the investment firm Colbeck Capital Management. DCEH and Education Principle Foundation retained a for-profit company called Studio Enterprise Manager, LLC (an affiliate of Colbeck), to manage those campuses. The Ai campuses sold to Education Principle Foundation include those in the cities of Atlanta; Austin (Texas); Dallas; Miami; Houston; San Antonio; Tampa (Florida); and Virginia Beach. The South campuses acquired by Education Principle Foundation include those in the states of Alabama, Georgia, Florida, South Carolina, Texas, and Virginia.
- On January 10, 2019, Washington State’s higher-education regulator, the Washington Student Achievement Council (“WSAC”), designated Ai’s Seattle campus as “at-risk” of closure and eventually suspended its authorization after a surety bond to protect student tuition was canceled.<sup>47</sup> Less than two months later, Ai Seattle

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<sup>41</sup> Letter from Michael J. Frola, U.S. Dep’t of Educ., to Mark Dottore, Dottore Companies, and Randall K. Barton, Dream Ctr. Educ. Holdings, regarding the denial of Argosy’s application for change of ownership, at 3 (Feb. 27, 2019), <https://studentaid.ed.gov/sa/sites/default/files/argosy-cio-denial-redacted.pdf>.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> *Information for Argosy and Art Institute Students*, FED. STUDENT AID, <https://studentaid.ed.gov/sa/about/announcements/dream-center> (last visited Oct. 16, 2019).

<sup>45</sup> Moore, *Deal Under Scrutiny*, *supra* note 26 (citing the notice of probation from the Middle States Commission on Higher Education; the actual notice is no longer published online).

<sup>46</sup> *MSCHE Ends Accreditation for The Art Institute of Pittsburgh and Looks to Finalize The Art Institute of Philadelphia Status*, MIDDLE STATES COMM’N ON HIGHER EDUC. (Apr. 23, 2019), <https://www.msche.org/2019/04/23/msche-ends-accreditation-for-the-art-institute-of-pittsburgh-and-looks-to-finalize-the-art-institute-of-philadelphia-status/>.

<sup>47</sup> Letter from Sam Loftin, Wash. State Achievement Council, to Lindsey Morgan Olinger, The Art Inst. of Seattle (Jan. 10, 2019), <https://www.wsac.wa.gov/sites/default/files/2019.01.10.At.Risk.Notification.pdf>.



informed WSAC that the school would close abruptly in two days—two weeks before the end of the winter quarter.<sup>48</sup>

- On January 18, 2019, all Argosy campuses, as well as the Ai campuses in Las Vegas, Seattle, and Pittsburgh—all DCEH campuses that were not sold to Education Principle Foundation—entered receivership. The receiver later claimed that the Studio agreements “strip[ped] DCEH of all its valuable business assets.”<sup>49</sup> In the receivership order, the court found that DCEH and its subsidiaries were indebted to secured, trade, and unsecured creditors for sums in excess of \$100 million.<sup>50</sup>
- In early 2019, Argosy ceased to provide instruction at one of its Phoenix, Arizona campuses because it was locked out of the premises. The school held classes at Ottawa University, a location for which it was not authorized. According to ED, students reported that they did not have access to computer labs or to all of the equipment or books needed for their classes.<sup>51</sup> ED found this failure to maintain and operate the Phoenix school at an approved location as evidence of the institution’s lack of financial responsibility.<sup>52</sup>
- On January 19, 2019, Argosy’s accreditor, WASC Senior College and University Commission (“WSCUC”), informed the school that the receivership and financial-aid restrictions imposed by ED rendered the school noncompliant with accreditor standards, and directed Argosy to Show Cause as to why its accreditation should not be withdrawn.<sup>53</sup> Less than two months later, WSCUC withdrew the accreditation of Argosy because the school did not provide the information and reports WSCUC directed, and because Argosy ceased offering educational programs.<sup>54</sup>
- Also in January 2019, ED placed DCEH schools on HCM2.<sup>55</sup>
- During the 2018-19 academic year, DCEH withheld from students \$2,250 in Minnesota GI Bill Grant aid, \$58,414 in Minnesota Child Care Grant Funds, and \$88,940.92 in Minnesota SELF Loan funds. By not disbursing these State grant and

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<sup>48</sup> Wash. State Achievement Council, *Media Release: AI Seattle to Close*, WSAC (Mar. 6, 2019), <https://www.wsac.wa.gov/media-2019-03-06-AI-Seattle-Close>.

<sup>49</sup> *Dottore v. Studio Enter. Manager, LLC*, No. 1:19-cv-00380, Doc. No. 1, at 14-15 (N.D. Ohio Feb. 21, 2019).

<sup>50</sup> *Digital Media Solutions, LLC v. South Univ. of Ohio, LLC, et al.*, No. 1:19-cv-00145-DAP, Doc. No. 8, at ¶ 3 (N.D. Ohio Jan. 18, 2019).

<sup>51</sup> Letter from Frola to Dottore and Barton, *supra* note 41, at 5.

<sup>52</sup> *Id.*

<sup>53</sup> Letter from Jamiene S. Studley, WASC Senior Coll. and Univ. Comm’n, to Cynthia Baum, Argosy Univ., regarding January 2019 Commission action (Jan. 19, 2019), <https://www.wscuc.org/institutions/argosy-university> (under Filename, select “Commission action letter, January 2019 action”).

<sup>54</sup> Letter from Jamiene S. Studley, WASC Senior Coll. and Univ. Comm’n, to Mark E. Dottore, Dottore Companies, and Joseph Harbaugh, Argosy Univ. Bd. of Trustees regarding March 2019 Commission action (Mar. 17, 2019), <https://www.wscuc.org/institutions/argosy-university> (under Filename, select “Commission action letter, March 2019 action”).

<sup>55</sup> *Information for Argosy and Art Institute Students*, *supra* note 44.

loan funds to its students, DCEH breached its agreements with the State of Minnesota and violated Minnesota law.<sup>56</sup>

- For several years, Argosy online and Ai online enrolled Oregon students, despite lack of state authorization to do so, in violation of Oregon law.<sup>57</sup> If DCEH received Title IV federal funding for those students, it also may have violated federal law because the schools were not legally authorized to operate in Oregon.
- Finally, and perhaps most egregiously, in January and February 2019, DCEH did not distribute \$16,299,840 in federal loan credit balance refunds to students.<sup>58</sup> ED reported that in late January it began to hear numerous complaints from students and parents that Argosy had failed to pay credit balances owed to its students, despite ED's release of \$12,955,761 in Title IV, HEA program funds to Argosy between January 1, 2019 and February 5, 2019.<sup>59</sup> Some students who use student loans to help cover groceries and transportation expenses were forced to use food banks or skip classes for lack of bus fare. A disabled Iraq War veteran with six children, enrolled in Argosy's online program, is reported to have moved his family into an extended-stay motel because the credit balance refund he needed to pay rent never arrived and he was evicted.<sup>60</sup>

On February 27, 2019, ED formally denied Argosy's change of ownership from EDMC to DCEH, and denied its conversion to nonprofit status.<sup>61</sup> In support of the decision, ED cited the failure of Argosy to meet the fiduciary standard of conduct: "The Department has determined that Argosy's failure to properly administer the Title IV, HEA program funds entrusted to it constitutes a grievous breach of its fiduciary duty to the Department."<sup>62</sup> Moreover, ED found Argosy did not the standards of financial responsibility, and did not meet the standards of administrative capability.<sup>63</sup> The Department found that DCEH violated numerous federal regulations, including 34 C.F.R. § 668.164(h)(2) and 34 C.F.R. § 668.162(d), when it failed to provide credit balances to borrowers: "[n]ot only did Argosy fail to pay credit balances prior to submitting its requests for payment from the Department, even after Argosy received the funds, it still failed to pay those credit balances."<sup>64</sup>

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<sup>56</sup> Aff. of Betsy Talbot, Manager, Private Institution Registration and Licensing, Minn. Office of Higher Educ., (May 10, 2019), *Digital Media Solutions LLC v. South Univ. of Ohio, LLC*, No. 1:19-cv-00145, Doc. No. 342-1 (filed May 24, 2019).

<sup>57</sup> Letter from Sean Pollack, Higher Educ. Coordinating Comm'n, to Teresa Speicher, Dream Ctr. Educ. Holdings, LLC, and Cynthia Baum, Argosy Univ., regarding Unauthorized Online Degree Programs (Mar. 5, 2019) (on file with the Oregon Dep't of Justice); Letter from Sean Pollack, Higher Educ. Coordinating Comm'n, to Teresa Speicher, Dream Ctr. Educ. Holdings, LLC, *et al.*, regarding Notification of Substantial Changes; Advertising and Recruitment by an Unauthorized Private Postsecondary School, July 3, 2018 (on file with the Oregon Dep't of Justice).

<sup>58</sup> Letter from Frola to Dottore and Barton, *supra* note 41, at 2.

<sup>59</sup> *Id.* at 3-4.

<sup>60</sup> Stacy Cowley & Erica L. Green, *Seeking \$2.1 Million After College Chain's Collapse (to Repay Its Guardian, Not Students)*, N.Y. TIMES (June 21, 2019), <https://www.nytimes.com/2019/06/21/business/dream-center-argosy-university-art-institutes.html>.

<sup>61</sup> Letter from Frola to Dottore and Barton, *supra* note 41. ED allowed Ai and South to remain on HCM2 status.

<sup>62</sup> *Id.* at 5-6.

<sup>63</sup> *Id.*

<sup>64</sup> *Id.* at 3.

In sum, from the date DCEH took over the schools in October 2017 to the date most of the schools closed in March 2019, DCEH violated numerous federal laws and the laws of 40 states, at minimum.<sup>65</sup> As provided in 34 C.F.R. §§ 685.214(c)(1)(i)(B), 682.402(d)(1)(i), and 674.33(g)(4)(i)(B), such violations alone provide cause to expand the period for closed school discharge. The schools' overall mismanagement provided students with multiple reasons to leave; the students should not be punished for doing so 120 days before a formal closure date.

**III. The Secretary of Education should extend the closed school discharge timeframe to include any Argosy, Ai, and South student borrower who withdrew from one of the closed schools after October 17, 2017.**

For schools that closed under DCEH management, the Secretary should extend closed school discharge to students who withdrew after October 17, 2017, the date DCEH took over the schools. The above actions by DCEH and events—which include misrepresentations made by ownership, closures of a significant portion of campuses, compliance failures, regulatory sanctions, and dubious financial dealings undertaken by DCEH—clearly constitute “exceptional circumstances” justifying an expansion of the closed school period. The violations of numerous state laws found by the Settlement Administrator, the adverse accreditor actions, and ED’s findings of the violations of federal law meet the explicitly listed criteria for an expansion of the closed school discharge period. Affected students should not have the obligation to repay federal student loans taken out for programs of studies they could not complete through no fault of their own.

The Secretary of Education has extended the closed school discharge timeframe to student borrowers to relieve students from harmful debts in cases of similar extraordinary circumstances. For student borrowers who attended Corinthian Colleges, for example, the Secretary extended closed school discharge eligibility to borrowers who withdrew from Corinthian within 311 days of the school’s closure. For student borrowers who attended Charlotte School of Law, you extended closed school discharge eligibility to borrowers who withdrew from Charlotte within 223 days of the school’s closure.<sup>66</sup> You also recently extended the closed school discharge period for students who justifiably withdrew from the Minnesota School of Business and Globe University but were unable to discharge their costly student debts based on the 120-day closed school-discharge timeframe.<sup>67</sup>

The circumstances of the closures of the DCEH schools are most unusual and egregious, necessitating an even longer discretionary window. The application of the default 120-day window to the Argosy, Ai, and South closures will unfairly saddle thousands of students with debt that closed school discharge is designed to prevent. From its start, DCEH failed to meet

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<sup>65</sup> In each instance where the Settlement Administrator found a violation of the consent judgment, that is a violation of state law of 39 states and the District of Columbia. As indicated above, DCEH also violated Minnesota state law.

<sup>66</sup> *Secretary DeVos Extends Closed School Discharge to More Charlotte School of Law Students*, U.S. DEP’T OF EDUC. (Mar. 9, 2018), <https://www.ed.gov/news/press-releases/secretary-devos-extends-closed-school-discharge-more-charlotte-school-law-students>.

<sup>67</sup> *Globe School Closure Fact Sheet*, FED. STUDENT AID, at 2 (July 2019), <https://studentaid.ed.gov/sa/sites/default/files/globe-mn.pdf>.

federal and state requirements, thus we request closed school discharge extended to students who withdrew after October 17, 2017.

As you correctly stated in extending closed school discharge before, “Several students, through no fault of their own, fell through the cracks as [their school] closed. It’s important that they, too, are made whole.”<sup>68</sup> You also have stated that your “focus is and will continue to be on doing what’s right for individual students.”<sup>69</sup> You can give these students a fresh start by extending their eligibility for closed school discharge. On behalf of our respective states, we request you do so immediately.

Sincerely,



Ellen F. Rosenblum  
Oregon Attorney General



Keith Ellison  
Minnesota Attorney General

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<sup>68</sup> *Secretary DeVos Extends Closed School Discharge to More Charlotte School of Law Students*, *supra* note 66.

<sup>69</sup> *Id.*



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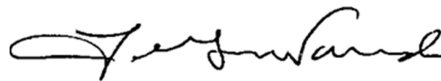
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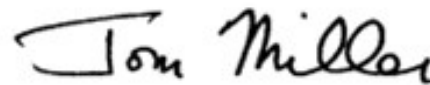
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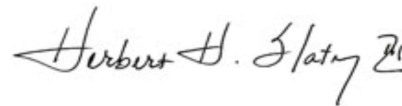
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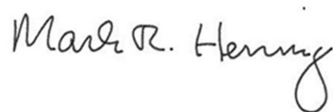
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