

**June 5, 2019**

**ATTORNEY GENERAL RAOUL CALLS ON U.S. DEPARTMENT OF EDUCATION TO DISCHARGE  
FEDERAL STUDENT LOANS**

***Raoul Seeks Relief for Illinois Institute of Art Students Who Were Misled on Accreditation;  
Demands Response on Previous Discharge Applications for Westwood and Everest***

**Chicago** — Attorney General Kwame Raoul recently sent two letters to U.S. Department of Education Secretary Betsy DeVos seeking the discharge of federal student loans in cases students were defrauded by their schools, Illinois Institute of Art, Everest College and Westwood College.

“Evidence of fraud in these cases is overwhelming,” Raoul said. “Deserving students, through no fault of their own, have been unfairly burdened with overwhelming debt loads. I urge the Department of Education to take action to right these wrongs and discharge the loans of thousands of Illinois students who were misled and defrauded by their schools.”

The [first letter](#), written with Colorado Attorney General Phil Weiser, seeks discharge of federal student loans for students who attended Illinois Institute of Art and Art Institute of Colorado in 2018. Both campuses lost accreditation, but misled students for six months that their campuses were still institutionally accredited. After Dream Center Education Holdings (DCEH), the schools’ parent company, disclosed the lack of accreditation, both schools announced plans to close at the end of the calendar year, leaving students with limited options.

The affected students were deceived into purchasing credits that could not be used. The students were not able to use credits earned in the spring of 2018 to complete their degrees because the campuses were closing. Similarly, they were unable to transfer credits to any other school because Illinois Institute of Art and Art Institute of Colorado were unaccredited. Attorney General Raoul is asking that loans used to pay for any credits after January 1, 2018 be discharged and any amounts paid on these loans to be refunded pursuant to the federal borrower defense to repayment regulations.

The [second letter](#) sent by Raoul calls for the U.S. Department of Education to respond to applications the Illinois Attorney General’s office made to discharge federal student loans for over 10,000 Illinois borrowers who attended Everest College and Westwood College. A recent federal court decision requires the department to respond to group discharge applications made by state attorneys general. Despite receiving the Westwood and Everest student loan discharge applications over two years ago, the department has failed to acknowledge receipt or render decisions, adding to a backlog of over 150,000 borrower defense to repayment applications that the department is not processing. The department has already made findings of fraud against Corinthian Colleges, Everest’s parent company, but has not discharged the loans obtained through fraud.

The Illinois Attorney General’s office has long been a national leader in investigating and enforcing consumer protection violations in the higher education field. Recently, Attorney General Raoul has overseen the rollout of the state’s first Student Loan Ombudsman, a position created by the Student Loan Servicing Rights Act, to provide a resource for student borrowers struggling with student loan payments.

Attorney General Raoul has also advocated for protections for veterans in higher education as part of a coalition of state attorneys general. In May 2019, Raoul called on the U.S. Department of Education to automatically discharge student loans for totally and permanently disable veterans. In April 2019, Raoul and

members of the coalition called on the U.S. House Education and Labor and Veterans Affairs Committees to increase protections for veterans, who are often targets of for-profit schools.

In 2017, the office filed a lawsuit against Navient, one of the nation's largest student loan servicers, after an investigation revealed widespread abuses of student loan borrowers. The office's consent judgment with Education Management Corporation (EDMC), the former parent company of the Illinois Institute of Art, enabled the revelation of, and investigation into, that school's loss of accreditation. Information obtained through that investigation led to this latest application for discharge of federal student loans for former Illinois Institute of Art students.

Student borrowers who have questions or are in need of can call the Attorney General's Student Loan Helpline at 1-800-455-2456. Borrowers can file complaints against their student loan servicer at the Illinois Attorney General's website.



OFFICE OF THE ATTORNEY GENERAL  
STATE OF ILLINOIS

**Kwame Raoul**  
ATTORNEY GENERAL



STATE OF COLORADO  
DEPARTMENT OF LAW

**Phil Weiser**  
ATTORNEY GENERAL

June 3, 2019

The Honorable Elisabeth DeVos  
Secretary  
U.S. Department of Education  
400 Maryland Ave SW  
Washington, D.C. 20202

RE: Loan Discharge for Illinois Institute of Art and Art Institute of Colorado Students

Dear Secretary DeVos,

We write to you to request loan discharge for Illinois Institute of Art (IIA) and Art Institute Colorado (AI-CO) students in attendance in 2018. For a period of six months, beginning on January 20, 2018, IIA and AI-CO misled students that their campuses were institutionally accredited by the Higher Learning Commission (HLC), when in fact they were not. After IIA and AI-CO finally disclosed the lack of accreditation, both schools announced that they would close at the end of the calendar year, leaving students reeling and with limited options.

Based on this substantial misrepresentation of accreditation, IIA and AI-CO students should have any federal student loan used to pay for schooling at the affected campuses from January 1, 2018 onward discharged and any amounts paid on those loans refunded. In addition, the closed school discharge eligibility period for these students should be extended to include any student who was in attendance on or after January 20, 2018.

#### I. Misrepresenting the Loss of Accreditation

There is no dispute that Dream Center Education Holdings (DCEH), parent company of IIA and AI-CO, misrepresented its accreditation. DCEH acknowledged the misrepresentation and the Receiver for DCEH stipulated to the relevant facts. Ex. A, Stipulated Facts; *see also* Ex. B, Settlement Administrator's Third Report, pp. 43-44. In summary, DCEH admits that IIA and AI-CO lost Higher Learning Commission (HLC) accreditation on January 20, 2018 and that it misrepresented that fact to enrolled students, prospective students, and enrolling students until June 15, 2018. Ex. A at ¶¶ 2-9. DCEH admits that it widely disseminated a substantial

misrepresentation about its accreditation via its website, claiming that IIA and AI-CO “remain accredited” when in fact they were not accredited. *Id.* at ¶¶ 5-6. The same misrepresentation was included in DCEH’s catalogs and enrollment agreements in the spring of 2018. Ex. C, IIA and AI-CO catalogs, pg. 5 (IIA) & pg. 3 (AI-CO); Ex. D IIA and AI-CO enrollment agreements pg. 5. DCEH acknowledges that accreditation “is essential for students to transfer credits to other schools and for potential employers to recognize degrees,” and that affected students need restitution. *Id.* at ¶¶ 1, 9. The Department has also acknowledged the misrepresentation in a May 9, 2019 letter regarding IIA and AI-CO. Ex. E, May 9, 2019 Letter from the Department (“[T]he Higher Learning Commission (“HLC”) advised the Department that the Art Institute of Colorado and the Illinois Institute of Art (the “Art Institutes”) websites indicated that the schools remained accredited, despite the fact that HLC had put them into Change of Control Candidacy Status (“CCC status”), which HLC treated as non-accredited.”)

This substantial misrepresentation is a violation of consent judgments between our offices and DCEH’s predecessors that govern the company’s conduct. Ex. F, November 15, 2015 Consent Judgment in *People v. Education Management Corporation*.<sup>1</sup> Paragraph 81(b) provides in relevant part that DCEH “shall not make express or implied false, deceptive, or misleading claims to Prospective Students with regard to the academic standing of its programs and faculty including, but not limited to misrepresenting . . . the accreditation” of its schools and programs. *Id.* at ¶ 81(b).

The Settlement Administrator appointed pursuant to the consent judgments found the misrepresentation to be “an egregious act of non-compliance.” Ex. G, May 10, 2019 Position Statement of the Settlement Administrator, pg. 5. The Settlement Administrator explores this violation in-depth in his third annual report, noting that the misrepresentation is not only a violation of the consent judgments, but also of HLC policy, which requires disclosure to students within fourteen days. Ex. B, Settlement Administrator’s Third Report, pp. 43-44. The Settlement Administrator also highlights the substantial harm to students from the misrepresentation of accreditation, harm that was heightened by the announcement that DCEH would close the IIA and AI-CO campuses:

[The accreditation] change on January 20 carried significant consequences for the students of [IIA and AI-CO] – including consequences for their federal financial aid and their ability to transfer any credits they earned after January 20 to other schools. These consequences became more dramatic once DCEH announced in July that those schools would close – and thus that many of the students would *need* those credits to transfer to other schools (emphasis in original). *Id.*

As part of the Settlement Administrator’s inquiry, DCEH provided a spreadsheet of all affected students. Ex. H, Spreadsheet of affected students. Between January 20, 2018 and June 15, 2018, 1761 students attended IIA and AI-CO. *Id.* These students are eligible for discharge of all student loans used to pay for education at IIA and CO-IA from January 1, 2018 onward and a refund of

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<sup>1</sup> The Consent Judgment expressly applies to EDMC’s successors and expressly covers asset sales, such as the one used to transfer IIA and AI-CO to DCEH. Colorado’s consent judgment is identical to Illinois’s. *See State of Colorado v. Education Management Corporation et al.* Colorado District Court Case No. 2015CV34015 (Nov. 19 2015).

any amounts paid on those loans pursuant to the borrower defense to repayment regulations, as described below.<sup>2</sup>

## II. Borrower Defense to Repayment

DCEH misrepresented its accreditation, thereby inducing students to purchase worthless, nontransferable credits. Such a substantial misrepresentation serves as a sufficient basis to support a borrower defense to repayment for affected students. The Department applies the standard of review in 34 C.F.R. § 685.222 in considering borrower defense to repayment of loans issued after July 1, 2017.<sup>3</sup> Borrowers are eligible for discharge where a preponderance of the evidence shows that the school made a substantial misrepresentation that the borrower reasonably relied on to the borrower's detriment. *See* 34 C.F.R. § 685.222(a)(2) & 34 C.F.R. § 685.222(d)(1). Upon consideration of common facts, the Secretary has the authority to determine whether a group qualifies for loan discharge. *See* 34 C.F.R. § 685.222(f). The Secretary can identify a group eligible for discharge from any source. 34 C.F.R. § 685.222(f)(1)(i). The Department is required to consider group discharge applications submitted by state attorneys general. *See Williams v. DeVos*, 2018 WL 5281741, at \*12 (D. Mass. Oct. 24, 2018). (“In short, the Court finds that Attorney General Healey’s DTR submission was sufficient to require the Secretary to determine the validity of the plaintiffs’ borrower defense.”)

The borrower defense regulation defines substantial misrepresentations and specifically contemplates misrepresentations of accreditation in that definition. (“Misrepresentation concerning the nature of an eligible institution’s educational program includes, but is not limited to, false, erroneous or misleading statements concerning – (a) The particular type(s), specific source(s), nature and extent of its institutional, programmatic, or specialized accreditation.”) 34 C.F.R. § 668.72. Where a substantial misrepresentation is widely disseminated, “there is a rebuttable presumption that each [group] member reasonably relied on the misrepresentation.” 34 C.F.R. § 685.222(f)(3).

The facts here are not at issue. DCEH does not dispute that it misrepresented its accreditation for a period of nearly six months, and has stipulated to those facts. Ex. A, ¶¶ 1-9. That the misrepresentation was of the nature of the school’s institutional accreditation means that it is by definition a “substantial misrepresentation” pursuant to 34 C.F.R. § 668.72. Reliance on accreditation is axiomatic in higher education. It is a standard that all stakeholders rely on. State regulators, the Department, employers, schools, and students all rely on accreditation to insure compatibility and quality of instruction.<sup>4</sup> In the case of IIA and AI-CO, students naturally relied on DCEH’s misrepresentation that the schools were accredited.

Moreover, it is not disputed that DCEH’s misrepresentation was widely disseminated. DCEH admits that the misrepresentation appeared on its website. Ex. A, Stipulated Facts, ¶ 5. Every

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<sup>2</sup> The loss of accreditation occurred 12 days after the start of the January 2018 term. Ex. C, IIA catalog, pg. 214. All credits earned for this term are unaccredited and thus all loans used to pay for the term should be discharged.

<sup>3</sup> U.S. Department of Education, Federal Student Aid, Office of Postsecondary Education, Guidance Concerning Some Provisions of the 2016 Borrower Defense to Repayment Regulations *available at* <https://ifap.ed.gov/eannouncements/030719GuidConcernProv2016BorrowerDefensetoRypmtRegs.html>

<sup>4</sup> *See e.g.* Higher Education Accreditation Concepts and Proposals, pg. 2, Senate Committee on Health, Education, Labor & Pensions, *available at* <https://www.help.senate.gov/imo/media/Accreditation.pdf>.

student who enrolled from January 20 to June 15, 2019 received the misrepresentation in their enrollment agreement. Ex. D, IIA & AI-CO enrollment agreements, pg. 5. It also appeared in the IIA and AI-CO catalogs. Ex. C, IIA & AI-CO catalogs, pg. 5. This wide dissemination of the misrepresentation creates the rebuttable presumption of reliance. *See* 34 C.F.R. § 685.222(f)(3).

Making matters worse, the affected students were not able to use credits from the spring of 2018 to complete their degrees at IIA or AI-CO because the campuses were closing. Similarly, they are not able to transfer the credits to any other school because IIA and AI-CO were unaccredited. The students were deceived into purchasing credits that cannot be put to use in any way. Loans used to pay for any credits earned after January 1, 2018 should be discharged and any amounts paid on those loans should be refunded.

Our offices have attempted to obtain relief from DCEH directly. Our consent judgments with DCEH have express provisions to resolve violations through corrective action plans instituted by the settlement administrator. Unfortunately, relief from DCEH will necessarily be limited because the company is insolvent and currently in Receivership. The settlement administrator has moved the DCEH Receivership Court to create a constructive trust to provide at least some relief. Ex. G, May 10, 2019 Position Statement of the Settlement Administrator. Even if the Receivership court or a subsequent bankruptcy court were to set aside some amount, it will not cover the full amount paid by students following the loss of accreditation, which exceeds \$25 million dollars.<sup>5</sup> The Receiver's May 30, 2019 cash flow statement, for example, shows that sources of cash exceed uses of cash by less than \$600,000. Ex. I, Receiver's May 30, 2019 cash flow statement.

### III. Closed School Discharge

In addition to granting borrower defense to repayment, the Department should exercise its discretion to extend the 120-day window within which students who withdrew from IIA and AI-CO are eligible for closed school discharge. Any student who withdrew after the school lost accreditation on January 20, 2018 should be eligible.<sup>6</sup> Hundreds of students, when they learned in short succession of the loss of accreditation and impending closure of IIA and AI-CO made the seemingly rational decision to withdraw from the school. Students were not told at this time, however, about the availability of and requirements for closed school discharge. Ex. B, Settlement Administrator's Third Report, pp. 31-35. Students who withdrew in July and August of 2018 were ultimately outside the 120 day window required for closed school discharge

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<sup>5</sup> Programs at Art Institutes generally have 15 credits per quarter, which generally cost \$483/credit. *See* Ex. C, IIA catalog pg. 123. DCEH misrepresented its accreditation over the course of two quarters. *See Id.* at 208. To compensate students for two full quarters, 30 credits at \$483/credit, it would be \$14,490/student. To fully compensate 1761 students attending full time for the two quarters where the misrepresentations occurred would be over \$25 million dollars. This figure excludes lab fees, the cost of digital textbooks, and starting kit fees which cost anywhere from \$599 to \$3695/student depending on the program. This figure ignores the amounts for the subsequent unaccredited periods from July to December 2018, which should also be discharged.

<sup>6</sup> It should be noted that there is an argument that the closed school discharge window should be extended to October 17, 2017 for all DCEH schools based on the Department's denial of their application for change in ownership. *See* February 27, 2019 letter from the Department to DCEH's Receiver and Board Chair available at <https://studentaid.ed.gov/sa/sites/default/files/argosy-cio-denial-redacted.pdf>. We restrict our argument in this letter to the circumstances surrounding the loss of accreditation at IIA and AI-CO, but do not concede that the date should not be pushed back for all DCEH students.

eligibility. In order to receive relief, IIA and AI-CO students should not be required to have stayed enrolled at, and continued paying tuition to a closing, unaccredited school that defrauded them.

The Department has the power to at least partially right this wrong by extending the closed school discharge eligibility date to the date that IIA and AI-CO lost accreditation. *See* 34 CFR 685.214(c)(1)(i)(B). Indeed the closed school discharge regulation expressly contemplates loss of accreditation as a reason to extend the date within which students who withdrew from school may have their loans discharged. *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. Exceptional circumstances for this purpose may include, but are not limited to: the school's loss of accreditation; the school's discontinuation of the majority of its academic programs; action by the State to revoke the school's license to operate or award academic credentials in the State; or a finding by a State or Federal government agency that the school violated State or Federal law . . . *Id.*

Additionally, a second express basis for extending the closed school discharge date exists in this case because of the finding that DCEH violated state law. The settlement administrator appointed to oversee the Illinois and Colorado state court judgments against DCEH found that DCEH's accreditation misrepresentations constituted a violation of those judgments. *See* Ex. G, May 10, 2019 Position Statement of the Settlement Administrator, pg. 5; *see also* Ex. B, Settlement Administrator's Third Report, pp. 43-44.

The settlement administrator appointed under the Illinois and Colorado judgments discusses DCEH's absolute failure to notify students about closed school discharge. He notes with frustration that he continually advised DCEH of the inadequacy of the information it provided to students on closed school discharge and DCEH's failure for over two months to provide adequate information. Ex. B, Settlement Administrator's Third Report, pp. 31-35. DCEH, for its part, told the administrator that it failed to provide adequate information at the direction of the Department. *Id.* at 32, 34 ("DCEH advises that it did not provide students with additional information because during this time, the Department of Education instructed DCEH not to announce that the schools were closing."). If this allegation is true, the Department betrayed the very students it is tasked with serving, and has a duty to provide any and all relief now available.

Students who attended IIA and AI-CO in the spring of 2018 paid for credits that had no value. The credits could not be used to complete degrees at IIA or CO-IA because the school announced it was closing at the same time it announced the loss of accreditation. The credits could not be transferred to another institution, because they were earned at an unaccredited school. Many students do not even qualify for closed school discharge, because the school obfuscated the details needed to qualify for that program even as the settlement administrator repeatedly urged them to make that information available.

Even in this age of large scale fraud and subsequent closures by for-profit schools, this situation stands out. The sheer audacity of misrepresenting institutional accreditation and the fundamental

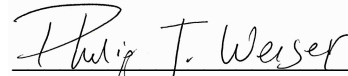
harm it causes to students demands that the Department discharge all federal student loans used to pay for education at IIA and AI-CO in 2018, refund students any amounts paid on those loans, and extend the closed school discharge date to January 20, 2018.

Sincerely,



Kwame Raoul  
Illinois Attorney General

Sincerely,



Phil Weiser  
Colorado Attorney General