

Congress of the United States
Washington, DC 20510

June 22, 2017

Mary Ellen Petrisko
President
WASC Senior College and University Commission
985 Atlantic Avenue, Suite 100
Alameda, CA 94501

Dear Ms. Petrisko:

We write with great concern regarding the announcement by The Dream Center Foundation (“Dream Center”) that it intends to purchase Education Management Corporation’s (EDMC) large, national chain of for-profit colleges and convert these institutions to “non-profit” status with funding from a private equity investment firm. This transaction requires the approval of both the U.S. Department of Education (“Department”) and each of EDMC’s current accreditation agencies. Because tens of thousands of students could potentially be impacted by this transaction of unprecedented size and scope, we urge you to closely and carefully scrutinize EDMC’s request to determine whether this conversion is in the best interest of students. In the event you do approve this transaction, we urge your agency to take coordinated action to protect students who are currently enrolled at EDMC’s institutions by imposing critical preconditions on the transaction.

In early March, the Dream Center—a non-profit religious organization—announced that it intends to purchase EDMC’s chain of college brands for what is now known to be \$60 million.¹ Reports also indicated that the Dream Center intends to convert EDMC’s for-profit college chains—Argosy University, South University, and the Art Institutes—into non-profit institutions of higher education.² The Dream Center is a Los Angeles-based philanthropic organization, founded in 1993, whose mission “is to reconnect isolated people to God and a community of support by providing human services that address immediate and long-term needs in the areas of homelessness, hunger, poverty, addiction, education, and human trafficking.”³ The foundation has no experience managing an institution of higher education.

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According to reports, Dream Center intends to pay \$50 million upfront for the schools, with two additional \$5.25 million payments after six months and a year.⁴ The Dream Center intends to finance this purchase with a loan from Najafi Companies, a major private equity investment company firm, which is also part owner of the University of Phoenix.

If the sale is successful and fully approved, the former EDMC institutions would be managed by Dream Center Education Holdings, LLC, a newly created subsidiary, under the executive leadership of Mr. Brent Richardson. In addition to Najafi Companies, Mr. Richardson would also provide a portion of the financing for the transaction through a family trust. Mr. Richardson is the former chief executive officer of Grand Canyon University, a large for-profit institution which last year had its application to convert to non-profit status denied by its accreditor, the Higher Learning Commission.⁵

The EDMC network of for-profit colleges currently enrolls 65,000 students at 102 locations in 32 states.⁶ EDMC's enrollment has fluctuated dramatically in recent years, peaking at 158,000 students.⁷ EDMC has also faced significant legal troubles in recent years, including multiple alleged violations of federal and state laws meant to protect students. In 2015, the U.S. Departments of Education and Justice fined the company nearly \$100 million for illegal and predatory recruiting practices.⁸ At the time, then-Attorney General Loretta Lynch said, "Operating essentially as a recruitment mill, EDMC's actions were not only a violation of federal law but also a violation of the trust placed in them by their students—including veterans and working parents—all at taxpayer expense."⁹ At the same time, 40 state attorneys general, including Attorneys General from Massachusetts, Washington, and Illinois, negotiated a settlement in which EDMC agreed to provide student loan relief for violating state laws protecting students from fraud and deception.¹⁰

Under the law, an institution that undergoes a change in ownership that results in a change in control must submit an application to reestablish eligibility for Title IV participation.¹¹ That application must include a document from the institution's accrediting association indicating that it will accredit the institution.¹² In other words, the sale of EDMC cannot be finalized until approved by your accreditation agency. EDMC schools are accredited by multiple regional and national accreditors, including Southern Association of Colleges and Schools, the

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Western Association of Schools and Colleges, Middle States Commission on Higher Education, Northwest Commission on Colleges and Universities, and the Higher Learning Commission.¹³ All of these agencies must review and approve the sale before it can go forward. In addition to having the authority to approve or deny a sale, accreditors may also impose preconditions to ensure that students are protected in the event the transaction is approved.

EDMC's troubling legal history raises important questions for your agency's review of this transaction and about whether the Dream Center's takeover of EDMC's school will improve the quality of education offered to students. Earlier this year, the Department released data on the number of students struggling to repay their student loan debt, known as "debt-to-earnings" rates, in order to comply with federal gainful employment regulations. A staggering number of EDMC programs were revealed to be saddling their students with stunning levels of student debt and producing graduates earning poverty-level wages. In fact, EDMC had the highest number of programs that failed the guidelines of the regulation; more than 200 of their programs were failing or in the "warning" zone. Those poorly performing programs represent 70 percent of *all* of EDMC's programs.¹⁴

We are deeply concerned that EDMC may be attempting to skirt federal accountability rules and protections for taxpayers by converting its institutions to non-profit status while maintaining key elements of for-profit governance, including a predatory operating and recruitment model, forced arbitration agreements as a condition of student enrollment, a pattern of spending more on marketing and recruitment than on instruction, and a financial arrangement that allows institution leaders to personally profit from the institution's operations.

For example, Mr. Richardson's employment and financing arrangement, in which he will serve as chief operating officer as well as a financier of Dream Center Education Holdings, LLC, raises significant questions about whether he stands to personally profit from this transaction and governance of these schools. Non-profit institutions of higher education are legally required to be "owned and operated by one or more nonprofit corporations or associations" of which "no part of the net earnings...benefits any private shareholder or individual."¹⁵ Furthermore, non-profit institutions of higher education are generally required to re-invest revenues into their educational missions, including investments into instruction and student support, rather than into the pockets of owners, shareholders, or executives—presumably shifting financial incentives and

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As gatekeepers to federal funding, accreditation agencies play a crucial role in promoting student success and assuring institutional quality. The public has shockingly little detail about the financing agreement or the operations and control of Dream Center Education Holdings, LLC, nor is there available information to determine whether students will be protected and well-served by Dream Center Education Holdings, LLC as a result of this sale. These questions must be addressed in your review.

The proposed sale of EDMC poses significant risks for students and taxpayers. We, therefore, urge you to closely coordinate with other accreditors to scrutinize and evaluate this transaction. As you deliberate, we ask that you give particular consideration to whether this transaction appears to be in the best interests of students or whether it may be an attempt to avoid federal rules meant to protect students and taxpayers. While the terms of sale established a deadline of December 5, 2017, the investors and EDMC have stated a desire to close the deal by the beginning of August 2017. Notwithstanding EDMC's desired timeline, it is imperative that all involved parties conduct a thorough, in-depth review of this major higher education purchase, no matter how long it takes.

As such, we request that you provide the following information in the form of written responses no later than July 14, 2017:

1. The criteria that you will use to assess the proposed sale during your evaluation of the EDMC transition,
2. The processes that you will use to conduct this evaluation and the information that you will obtain from EDMC and its new investors to do so, and
3. Your proposed timeline for this process.

Thank you for your assistance in providing this information. If you have any questions related to this request, please contact Josh Delaney in the office of Senator Elizabeth Warren at (202) 224-4543 or Brandon Honore in the office of Representative Rosa DeLauro at (202) 225-3661.

Sincerely,



Elizabeth Warren
United States Senator



Rosa L. DeLauro
Member of Congress



Richard J. Durbin
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Kamala D. Harris
United States Senator

Congress of the United States
Washington, DC 20510

June 22, 2017

Dr. Belle S. Wheelan
President
Southern Association of Colleges and Schools Commission on Colleges
1866 Southern Lane
Decatur, GA 30033

Dear Dr. Wheelan:

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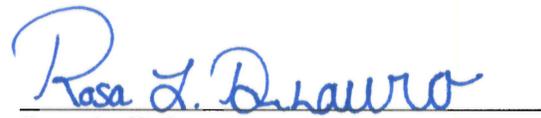
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Sincerely,



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Kamala D. Harris
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Congress of the United States
Washington, DC 20510

June 22, 2017

Dr. Sandra E. Elman
President
Northwest Commission on Colleges and Universities
8060 165th Ave NE Suite 100
Redmond, WA 98052

Dear Dr. Elman:

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Sincerely,



Elizabeth Warren
United States Senator



Rosa L. DeLauro
Member of Congress



Richard J. Durbin
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Sherrod Brown
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Kamala D. Harris
United States Senator

Congress of the United States
Washington, DC 20510

June 22, 2017

Dr. Elizabeth Sibolski
President
Middle States Commission on Higher Education
3624 Market Street
Philadelphia, PA 19104

Dear Dr. Sibolski:

We write with great concern regarding the announcement by The Dream Center Foundation (“Dream Center”) that it intends to purchase Education Management Corporation’s (EDMC) large, national chain of for-profit colleges and convert these institutions to “non-profit” status with funding from a private equity investment firm. This transaction requires the approval of both the U.S. Department of Education (“Department”) and each of EDMC’s current accreditation agencies. Because tens of thousands of students could potentially be impacted by this transaction of unprecedented size and scope, we urge you to closely and carefully scrutinize EDMC’s request to determine whether this conversion is in the best interest of students. In the event you do approve this transaction, we urge your agency to take coordinated action to protect students who are currently enrolled at EDMC’s institutions by imposing critical preconditions on the transaction.

In early March, the Dream Center—a non-profit religious organization—announced that it intends to purchase EDMC’s chain of college brands for what is now known to be \$60 million.¹ Reports also indicated that the Dream Center intends to convert EDMC’s for-profit college chains—Argosy University, South University, and the Art Institutes—into non-profit institutions of higher education.² The Dream Center is a Los Angeles-based philanthropic organization, founded in 1993, whose mission “is to reconnect isolated people to God and a community of support by providing human services that address immediate and long-term needs in the areas of homelessness, hunger, poverty, addiction, education, and human trafficking.”³ The foundation has no experience managing an institution of higher education.

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According to reports, Dream Center intends to pay \$50 million upfront for the schools, with two additional \$5.25 million payments after six months and a year.⁴ The Dream Center intends to finance this purchase with a loan from Najafi Companies, a major private equity investment company firm, which is also part owner of the University of Phoenix.

If the sale is successful and fully approved, the former EDMC institutions would be managed by Dream Center Education Holdings, LLC, a newly created subsidiary, under the executive leadership of Mr. Brent Richardson. In addition to Najafi Companies, Mr. Richardson would also provide a portion of the financing for the transaction through a family trust. Mr. Richardson is the former chief executive officer of Grand Canyon University, a large for-profit institution which last year had its application to convert to non-profit status denied by its accreditor, the Higher Learning Commission.⁵

The EDMC network of for-profit colleges currently enrolls 65,000 students at 102 locations in 32 states.⁶ EDMC's enrollment has fluctuated dramatically in recent years, peaking at 158,000 students.⁷ EDMC has also faced significant legal troubles in recent years, including multiple alleged violations of federal and state laws meant to protect students. In 2015, the U.S. Departments of Education and Justice fined the company nearly \$100 million for illegal and predatory recruiting practices.⁸ At the time, then-Attorney General Loretta Lynch said, "Operating essentially as a recruitment mill, EDMC's actions were not only a violation of federal law but also a violation of the trust placed in them by their students—including veterans and working parents—all at taxpayer expense."⁹ At the same time, 40 state attorneys general, including Attorneys General from Massachusetts, Washington, and Illinois, negotiated a settlement in which EDMC agreed to provide student loan relief for violating state laws protecting students from fraud and deception.¹⁰

Under the law, an institution that undergoes a change in ownership that results in a change in control must submit an application to reestablish eligibility for Title IV participation.¹¹ That application must include a document from the institution's accrediting association indicating that it will accredit the institution.¹² In other words, the sale of EDMC cannot be finalized until approved by your accreditation agency. EDMC schools are accredited by multiple regional and national accreditors, including Southern Association of Colleges and Schools, the

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Congress of the United States
Washington, DC 20510

June 22, 2017

Dr. Barbara Gellman-Danley
President
Higher Learning Commission
230 South LaSalle Street, Suite 7-500
Chicago, Illinois 60604-1411

Dear Dr. Gellman-Danley:

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