US: Investigation exposes extensive corruption in student loan dealings

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A widening investigation by New York Attorney General Andrew Cuomo's office into dealings between college financial aid administrators and for-profit student loan companies has revealed extensive conflicts of interest, payments, and arrangements benefiting company shareholders at the expense of students and their families.

Last week, investigators found that Matteo Fontana, the Office of Federal Student Aid general manager, a position that makes him responsible for regulating student aid lenders, sold thousands of shares of a student loan company stock in 2003.

At the same time, three senior financial aid officers at three major universities were found to have sold large numbers of shares in the same company, Student Loan Xpress. The actions of these administrators were revealed in an investigation by Higher Ed Watch, part of the government watchdog group New America Foundation. Three other administrators are under investigation by Cuomo for similar relationships with Student Loan Xpress.

"This is like peeling an onion," Cuomo commented to the Associated Press April 10. "It seems to be getting worse the more we uncover. It's more widespread than we originally thought.... More schools and more lenders at the top end."

Cuomo speculated that dozens of other universities would be drawn into the investigation. "No one is even defending the situation anymore," he said. "When we first started, it was 'Oh, this is just a few bad apples.' "

According to the College Board, university tuition has risen by 35 percent in the last five years. Meanwhile, federal and state grant aid based on financial need has declined. Not surprisingly, as students and their families turned increasingly to private loans, the for-profit student loan industry ballooned into an $85-billion-a-year enterprise.

Private loan companies have worked systematically to develop connections with a layer of elite administrators whose relation to the student population is increasingly exploitative and centered on self-enrichment. According to Cuomo, the owners of Student Loan Xpress developed a deliberate plan to "market to the financial aid offices of schools" in order to increase their share of college lending.

Loan companies cater to administrators at universities by offering financial rewards and incentives for higher loan volume and a place on campus "preferred lender" lists, which students are referred to for their financial needs by aid offices. A loan company that is able to get on such a list will generally receive much more business from students at the school, even though they may not provide the lowest rates.

Many loan officers attend all-expenses-paid cruises and retreats, and receive complimentary trips, gifts, and bonuses based on the amount of student borrowing each semester.

The three administrators examined in the Higher Ed report were David Charlow, an aid administrator at Columbia University, Lawrence Burt, associate vice president and director of student financial aid at the University of Texas at Austin, and Catherine Thomas, associate dean of admissions and director of financial aid at the University of Southern California.

Charlow sold 7,500 shares in Student Loan Xpress for $72,000 in 2003, and held options on another 2,500 shares. He sold additional shares in 2005, bringing his total profit to more than $100,000. According to Higher Ed Watch, Burt sold 1,500 shares at about $10 a share in 2003 and held 500 options on additional shares. Thomas held 1,500 shares.

Charlow, Burt and Thomas all sit on an advisory board for Student Loan Xpress. Higher Ed Watch was unable to determine whether the three had purchased the stock they held or received it as a gift.

However, Higher Ed Watch found that Student Loan Xpress was strongly promoted by Charlow's office. At Columbia University, the company was the largest lender, accounting for 39 percent of the school's total federal loan volume, or $14 million a year. By comparison, the next largest lender, Citibank, provided $5 million in loans to students and their parents last year. Charlow also wrote an endorsement for Student Loan Xpress that appeared on the company's website.

On Monday, financial aid directors at Johns Hopkins University, Widener University and Capella University, an online school based in Minneapolis, Minnesota, were put on paid leave after Cuomo's office found they received tens of thousands of dollars in consulting fees and perks.

The three administrators were suspended after Cuomo's office sent letters to the schools announcing an expansion of its investigation into the dealings.

Ellen Frishberg, student financial services director at John Hopkins University, received $43,000 in consulting fees from Student Loan Xpress and $22,000 in tuition payments for classes she was enrolled in at another school. Frishberg also served on the company's advisory board and wrote an endorsement on its website. According to Cuomo's office, every year for the last four years, more than 40 percent of Johns Hopkins students and their families took out loans through Student Loan Xpress.

Capella University's financial aid director, Timothy Lehmann, was paid $13,000 in consulting fees. At Widener University, the dean of the financial aid office, Walter Cathie, ran a separate company that held conferences on student loans. According to an attorney working at the New York Attorney General's office, Student Loan Xpress paid Cathie's company $80,000 to send representatives to the conferences.

CIT Group, the parent company of Student Loan Xpress, placed three top executives on leave in response to the rapidly expanding investigation.

Student Loan Xpress is not the only company that has been embroiled in the revelations. In March, Cuomo announced that he planned to bring a civil lawsuit against Education Finance Partners of San Francisco for giving what amounted to kickbacks to a number of schools—including St. John's University, Long Island University, Boston University, Clemson University and Baylor University—in exchange for more student loan business.

Earlier this month, without admitting wrongdoing, financial giant Citigroup agreed to pay $2 million to educate students about loans, in response to similar revelations involving the bank's relationship to Syracuse University, New York University, St. John's, Fordham University and the University of Pennsylvania. The universities agreed to pay a total of $3.2 million to student borrowers.

Cuomo's investigation last fall also found that at several universities, financial aid call centers were directly but covertly operated by for-profit loan companies in the schools' names—that is, students who thought they were calling the university for financial advice were in fact directed to private loan institutions. The investigation has also examined cases in which loan companies have given universities "opportunity pools" of private, high-interest-rate loan money for students with bad credit in exchange for being named as the exclusive provider of federally managed loans on campus.

The integration of interests extends into the government itself, as indicated by the case of Fontana, the Office of Federal Student Aid general manager who was found to have sold thousands of shares of Student Loan Xpress. He was listed in documents filed with the Securities and Exchange Commission as holding at least 10,500 shares in Education Lending Group, the parent company of Student Loan Xpress at the time. Fontana sold the shares for $10 apiece, collecting more than $100,000.

This shareholding constitutes a conflict of interest with Fontana's 2002 appointment as manager of the National Student Loan Data System at the Education Department, a database and tracker of student aid awards. The system includes detailed information on federal student loan borrowers, data that private lenders could potentially use to target students based on their borrowing histories. Such conflict of interest is inherent in the revolving door between the lending industry and its regulatory bodies in government.

Before taking his federal position, Fontana held an executive position at Sallie Mae, the nation's largest for-profit provider of student loans. At least half a dozen other Bush appointments to the Department of Education were also formerly employed at Sallie Mae, including chief operating officer of the Federal Student Aid office Theresa Shaw, Fontana's superior. In 1999, Shaw was senior vice president of Sallie Mae.

Last week, the New York Attorney General's office issued subpoenas to Sallie Mae requesting information on current and former employees who had worked in the Education Department over the past six years.