US: Circle of corruption widens in student loan investigation

Naomi Spencer
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As investigations continue into improper financial dealings between the student loan industry and universities, more schools, companies, and federal officials have been implicated. Most recently, evidence demonstrates that the US Department of Education has increasingly helped promote the interests of lenders by rejecting any federal regulation of the relationship between the banks and schools.

In 2001, the Bush administration quashed a Department of Education proposal to curb loan industry gifts to schools and financial aid officials, the *Washington Post* reported in a front-page article May 1. The proposed policy had been drafted near the end of the Clinton administration in response to the growing number of loan companies seeking to ply schools with financial "inducements" in exchange for access to students.

The proposal addressed one aspect of the entangled relationship between banks and universities. It would have made it a violation for a lender to offer "something of value" to a university at which at least 20 percent of the school's loan volume flowed to that lender.

Notwithstanding this revelation, on May 3 the department moved to reopen the federal student loan database to private lenders. The loan industry was shut out two weeks ago after it was discovered that lenders had been mining the database, which contains borrowing history and other confidential information of 60 million students. Loan companies used information to solicit students with predatory offers, often with misleading, official-sounding names and conditions.

University tuition has continued to increase in recent years, even as governmental need-based grant aid has declined. As a result, millions of students and their families have been forced to finance much of their tuition and fees with private, for-profit loans. Over the past decade, loan volume has doubled, mainly though a 730 percent increase in private loan volume. US college graduates now carry debt burdens averaging $18,000.

After exhausting federal aid, many families have turned to campus aid officials for what they thought was impartial loan advice, or relied on their university's "preferred lenders" list, a list of lenders that many students assume offer the lowest rates. According to New York Attorney General Andrew Cuomo's office, approximately 90 percent of student borrowers choose their lenders from their school's preferred lender lists.

Exploiting this arrangement, loan companies have cultivated relations with school administrators by providing financial incentives and rewards, allegedly in exchange for preferred lender status and higher loan volume. Many university loan officers were lavished with all-expenses-paid vacations, gifts, bonuses, and stock in loan companies.

Education Department documents obtained by the *Post* indicated that loan industry executives had approached the federal agency asking what the limits on financial inducements to aid directors were. "We have been asked to provide guidance on whether certain practices of [private] lenders and guaranty agencies are considered to be prohibited inducements," John Reeves, a Clinton-appointed Office of Federal Student Aid manager wrote in 2001. "We are particularly concerned with allegations that some lenders and guaranty agencies have attempted to hide or disguise an impermissible offer."

In response, Reeves and the Student Aid office's chief operating officer, Greg Woods, drafted the proposal, called "subregulatory guidance." However, the proposal was rejected by Bush appointees, many of whom either came to the Education Department directly from executive positions in the loan industry or accepted high-paying loan industry positions after leaving agency posts.

One such official at the time, Jeffrey Andrade, who came from Sallie Mae and is now executive vice president of private student loan company US Education Finance Group, called the measures "very draconian." "We were like, 'No, we're not going to drop a bomb on the lending community with these wacko ideas,' " he told the *Post.*

Instead, department officials suggested that lenders draft their own voluntary guidelines for financial inducements, which predictably came to nothing. Revealingly, Andrade, who in his capacity as Deputy Assistant Secretary of

Postsecondary Education pushed for the liquidation of the federal direct loan program, said that, if implemented, half of the nation's schools would have been in violation of the subregulatory guidance.

In recent weeks, investigations led by Cuomo's office have singled out 22 institutions, 18 lending and banking firms, 90 alumni groups, and numerous school and government officials in revenue-sharing arrangements. The investigation has expanded to include nearly 100 schools. None of the subjects under investigation have been criminally charged.

On May 3, Cuomo's office announced it was sending subpoenas to dozens of alumni associations for information on their paid sponsorships of loan companies. Lenders trying to sell consolidation loans to graduates have established payment and award schemes with campus alumni groups in order to access the names and contact information of former students holding multiple loans. Marketing materials sent to these graduates typically carry university and alumni association logos, falsely implying an endorsement made on the basis of quality. Cuomo's office also sent a subpoena to the loan corporation Nelnet, which has marketing arrangements with more than 100 alumni associations.

The 22 schools found in conflict of interest have agreed to adopt a code of conduct prohibiting them from receiving "anything of value from any lending institution in exchange for any advantage sought by the lending institution," with their employees barred from accepting "anything of more than nominal value."Eight schools have agreed to reimburse students a total of $3 million for the estimated amount their revenue-sharing agreements cost borrowers.

Rampant conflicts of interest have been uncovered within school aid offices. For example, financial aid call centers at several universities have been found to be covertly run by for-profit loan companies including Nelnet and Sallie Mae under school names and numbers. When students thought they were getting advice from university aid councilors, they were actually speaking to company representatives falsely identifying themselves as school employees.

The New York attorney general's office announced April 30 that New York art school Pratt Institute made such a deal with Education Finance Partners in 2005, whereby the lender would provide need-based grant money if Pratt students took out a total of $1 million in loans. As the *New York Times* reported May 1, the company was gouging Pratt borrowers for 15 percent interest, or more than double the 6.8 percent rate on federal loans and higher than many credit card rates.

This predatory arrangement is by no means unique. Cuomo's office stated in March that Education Finance Partners had established revenue sharing schemes at more than 60 other colleges. The company subsequently paid $2.5 million into a fund created by the New York attorney general's office to educate prospective borrowers about student loans.

Together with Education Finance Partners, lending giants Sallie Mae and Citibank have paid a total of $6.5 million into consumer education funds for their improper relations with schools. CIT Group, JP Morgan Chase, and Bank of America are also implicated by the investigations. Nebraska-based lender Nelnet hastily drafted its own $1 million settlement April 27 with the state attorney general, but is still under investigation by Cuomo's office.

While the million-dollar settlements are trumpeted by some as a return of oversight, these payments are less than pocket change to the lending industry. Nelnet alone holds $23.8 billion in student loan assets. Sallie Mae, which paid $2 million, is the nation's largest student loan company, with $127 billion in loans. Citigroup, which also paid $2 million into the loan education fund, is the largest company in the world, with total assets of more than $2 trillion.

The fines will also have no effect on the underlying problem—the explosion of university and college tuition and the drying up of federal aid, which has forced students into the hands of private lenders. Some Democrats have seized on the issue of student loans because it allows them to posture as defenders of students. However, university tuition has been increasing steadily for decades, and did not let up during the Clinton administration. Democrats, now in control of Congress, have not proposed any serious measures to deal with the increasing financial problems confronting students.