Top federal student loan official in US resigns amid controversy

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On May 8, the US Department of Education announced that its top student loan official is stepping down. According to a statement from Education Secretary Margaret Spellings, Theresa Shaw, chief operating officer of the Federal Student Aid office, will leave her position on June 1.

Before her appointment in 2002, Shaw was senior vice president of Sallie Mae, the largest for-profit student loan company in the US, with $127 billion in loan assets. She worked at the company for two decades, then served as CEO of eNumerate Solutions, a technology firm with a client base including Sallie Mae and other major banking and lending companies.

Department officials have not given reasons for her departure and have maintained it is unrelated to the investigations. In an email obtained by the *Washington Post*, Shaw claimed that she was leaving the Education department "to pursue other career opportunities."

Nevertheless, Shaw's resignation is clearly aimed at containing a burgeoning scandal that has exposed the way in which the federal agency responsible for regulating student loans has been turned over to the lending companies. The resignation came just three days after the Inspector General's office at the Education Department opened an inquiry into conflicts of interest and improper financial arrangements between student aid officials, schools and lenders. It came two days before Spellings was scheduled to testify before Congress.

The Education Department, and particularly its Student Aid office, has come under pressure by outside investigations to appear uncompromised, despite its intimate ties to the $85 billion a year loan industry. Congressional Democrats, seeking to posture as opponents of the corrupt lending procedures, requested personnel records of Shaw and 26 other employees in the department last month. The House of Representatives overwhelmingly passed a bill May 9 that calls for an end to the practice in which lenders provide gifts to school personnel in exchange for a spot on a school's "preferred lender" list.

At least half a dozen other Bush appointees in the department were also former employees of Sallie Mae, and many more officials have ties to other major lenders. A manager in the office directly under Shaw, Matteo Fontana, had come from Sallie Mae, to eNumerate Solutions, then to the Education Department, where he was put in charge of a database containing the borrowing patterns and personal information of 60 million students.

Last month, Fontana was placed on leave after New York Attorney General Andrew Cuomo's office discovered he had sold shares worth $100,000 in student loan stock in 2003. The database was also briefly closed to lenders, which had been mining the system for information and soliciting students based on their borrowing histories. It was reopened May 3.

Disclosure of Fontana's improper stock holdings came a month after former Deputy Secretary of Education Eugene Hickok admitted holding Bank of America stock during his tenure. The government reached a $50,000 settlement agreement with Hickok, who continued to hold 800 shares in the lender after ethics officials in the department told him to sell.

A number of other revelations have emerged in recent weeks that, taken together, describe conflicts of interest endemic to the revolving door between regulatory agencies and the private sector.

On May 1, the *Washington Post* reported that a 2001 proposal aimed at curbing financial inducements from lenders to schools and administrators was quashed by new Bush appointees in the Department of Education. In addition, hundreds of millions of dollars in federal loan subsidies were collected by loan companies by means of loopholes left open by department officials.

On May 9, the *New York Times* reported that repeated warnings about student loan companies abusing rules on federal subsidies and improperly collecting hundreds of millions in government payments were also scuttled by the Bush administration. The subsidies, set aside by Congress in a worsening economic situation in the 1980s, were intended to ensure the availability of low-cost student loans by guaranteeing lenders a 9.5 percent rate of return on loans financed by tax-exempt bonds, which would shield private lenders from loss and excess cost.

When interest rates had dropped in the early 1990s, Congress cut back parts of the program. Lenders, eager to collect on the interest rate difference, began finding ways to push their loans into the program by reclassifying them in superficial ways. A long-time researcher in the Education Department, Jon Oberg, discovered that several large lenders were fleecing the program for hundreds of millions of federal dollars, claiming higher loan amounts as eligible. He told the *Times* that when he informed his supervisor in 2003, he was told to drop it.

His supervisor, a Bush appointee, told Oberg in an email that the department “does not have an intramural program of research on postsecondary education finance. In the 18 months you have remaining, I will expect your time and talents to be directed primarily to our business of conceptualizing, competing and monitoring research grants.” Oberg’s job description was subsequently rewritten in order to prohibit further research into the subsidies.

On May 10, Education Secretary Spellings delivered some defensive remarks before a House committee about the loan investigations and alleged lender abuse of federal subsidies. Spellings said that the student aid system was “crying out for reform.”

“The system is redundant, it’s byzantine and it’s broken,” she said, essentially presenting the department’s relations with the for-profit loan industry as a progressive streamlining. House Education and Labor chairman George Miller, a California Democrat, disagreed, pointing out that regarding alleged conflicts of interest, “The department hasn’t acted on this with any haste or urgency.”

Miller also criticized Spellings for declining to recover $278 million in federal subsidies that a 2006 Education Department audit had found were overpaid to student lender Nelnet, a major Republican Party campaign contributor. Rather than pay back the $278 million, Nelnet agreed not to pursue $900 million in federal subsidies the company insisted the department owed it.

The department “gallowed somebody to get away essentially with theft,” Democratic Representative John Tierney noted. In 2005, Spellings overruled an inspector general recommendation that $36 million be recovered from another lender.

“When I look at the whole body of evidence that has been amassed,” Miller said, “it is clear that, at a minimum, the Education Department’s oversight failures have been monumental.” Spellings bristled, pointing out that Congress owned some of the blame for failings in the student aid program by neglecting to reauthorize the Higher Education Act, expired in 2003, which established federally funded scholarships and low-interest rate loans.

Congress also bears blame for repeatedly denying an increase in the federal Pell Grant while tuition rose substantially. Whatever the Democrats’ posturing, they have not taken any serious steps to address the problems confronting American students since gaining control of Congress in January.

The cost of attending college, which has risen by more than a third in the past five years, has left students and their families with little choice but to finance part of educational expenses with loans. The lending industry has grown exponentially during this period, driven mainly by a 730 percent spike in private loan volume.

Investigations into the relationships between loan companies and university student aid offices have uncovered extensive corruption. Scores of schools and nearly 100 alumni associations are being investigated for receiving financial inducements and gifts in exchange for endorsement of and promotion of lenders, who may or may not offer the best loans or interest rates for students.

On May 10, New York Attorney General Cuomo’s office announced it had reached a $3 million settlement agreement with financial company CIT Group and its subsidiary Student Loan Xpress following revelations of lavish gifts and stock deals with university and federal officials. CIT Group agreed to adopt Cuomo’s code of conduct, and to cooperate with his investigation into the Education Department official Matteo Fontana, who had held Student Loan Xpress shares.

Separately, New Jersey Attorney General Stuart Rabner announced that his office was subpoenaing 61 universities in the state and 17 student loan companies and banks, including Student Loan Xpress, Sallie Mae, Wachovia, Education Finance Partners, JP Morgan Chase, and Nelnet.