STRENGTHENING AMERICA'S MIDDLE CLASS

DEMOCRATS TAKE ACTION ON STUDENT LOAN SCANDAL

110TH CONGRESS

THE HONORABLE GEORGE MILLER
CHAIRMAN
COMMITTEE ON EDUCATION AND LABOR
UNITED STATES HOUSE OF REPRESENTATIVES

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Protecting Students and Families from Unethical Lenders

Student loans serve as one of the primary means of access to higher education for students and families. Ensuring that our nation's federal student loan program is working as intended – to help students and parents pay for college – is critical to protecting the integrity of the program and to providing students greater access and opportunities to pursue their educational goals.

Ongoing congressional and state-level investigations into the student loan industry have exposed rampant conflicts of interest and unethical practices within the student loan programs – especially lenders' use of bribes and kickbacks to curry favor with colleges. At a time when college costs continue to skyrocket, this deception and greed is undermining the credibility of federal student aid programs, and come at the expense of students, families, and taxpayers.

Each year approximately 12 million students and families apply for federal student financial aid to pay for college with the understanding that the information, guidance and aid they receive is unbiased, and free of any corporate influence.

Investigating the Student Loan Scandal

In February 2007, Representative George Miller (D-CA), Chairman of the House Education and Labor Committee, and Senator Edward M. Kennedy (D-MA), Chairman of the Senate Health, Education, Labor, and Pensions Committee, introduced the Student Loan Sunshine Act to clean up the relationships between schools and student lenders. Chairmen Miller and Kennedy have also both launched formal investigations into the relationships between schools, government officials, and lending companies in order to ensure that the student loan programs are operating to the maximum benefit of students and families.

Chairman George Miller

Late in 2006, New York Attorney General Andrew M. Cuomo began an investigation into the relationships between schools and student loan lenders. His investigation uncovered a disturbing number of highly questionable practices and relationships among schools and student loan lenders.

The findings in the student loan scandal have not been limited to schools and lenders. It has been found that officials at the Department of Education with oversight of the student loan program have had conflicts of interest. Additionally, there have been allegations of improper use by lenders of students' personal information held by the Department of Education.

Chairman Miller Calls for Emergency Reforms of Student Loan Industry

In April 2007, Chairman Miller called on Education Secretary Margaret Spellings to immediately take the following actions:

1. **Impose a moratorium on "preferred lender lists."** Immediately require colleges and universities to end the practice of establishing special relationships with lenders via "preferred lender" lists until we can ensure that these lists no longer feed corruption and cronyism.

2. **Clearly define and end bribes paid by lenders.** Explain why the Department has failed for the past six years to publish regulations on inducements paid by lenders to colleges and universities in order to receive special treatment. The Secretary must publish emergency regulations to clearly define inducements and bribes.

3. **Require full disclosure.** Require all institutions and lenders immediately disclose any and all relationships that present conflicts of interest.

4. **Instruct schools and lenders to cease and desist all conflicts of interest.**

5. **Conduct oversight of Department of Education employees.** Request the Inspector General to investigate all senior Department of Education employees that work on higher education issues to identify any conflicts of interest.

New York Attorney General Settlement Overview

✓ The following schools have agreed to reimburse students more than <u>$3 million</u> for the cost of revenue sharing agreement in addition to agreeing to abide by the Attorney General's "College Code of Conduct."

- New York University - $1.4 million
- University of Pennsylvania - $1.6 million
- Fordham University - $13,800
- Syracuse University - $164,000
- St. Johns University - $80,500
- Long Island University - $2,400
- Salve Regina University - $7,800
- DeVry University - $88,000

✓ The following schools have agreed to abide by the Attorney General's "College Code of Conduct:"

- State University of New York
- Molloy College
- Pace University
- New York Institute of Technology
- St. Lawrence University
- Washington University
- Career Education Corp

✓ In total, three lenders have agreed to put $6.5 million into the Consumer Education Fund to educate high school students and their parents about the college loan process.

- <u>Citibank:</u> The nation's largest bank with student-loan business at about 3,000 schools agreed to adopt practices in the code of conduct & commit $2 million to the Consumer Education Fund.
- <u>Sallie Mae:</u> Agreed to adopt the code of conduct governing student lending and contribute $2 million to Consumer Education Fund. Serves almost 10 million borrowers, manages a portfolio of over $142 billion in loans nationwide, and has relationships with over 5600 schools.
- <u>Education Finance Corp. (EFP):</u> Agreed to adopt the code of conduct, end revenue sharing arrangements, and contribute $2.5 million to Consumer Education Fund.

Congressional Action

Chairmen Kennedy and Miller introduce the Student Loan Sunshine Act to require schools and lenders to fully disclose the nature of their relationships and ban gifts worth more than $10 from lenders to schools. (2/1/07, 2/7/07)

Chairman Miller and the chairman of the House Financial Services Committee, Barney Frank (D-MA) request information on relationships between Sallie Mae and the Bush administration on news of Sallie Mae Chairman Al Lord's selling of $18.3 million of stock shortly before announcement of an administration proposal that resulted in stark decrease in Sallie Mae stock. (2/13/07)

Chairmen Kennedy and Miller request information from lenders regarding their relationships with colleges' financial aid offices. (3/21/07, 3/29/07)

Chairman Miller requests information from the U.S. Department of Education on employee Matteo Fontana's selling of 10,500 shares of Student Loan Xpress/CIT Group in 2003 while holding an influential position in an office inside the department that administers student aid. Also requests information from Student Loan Xpress/CIT Group about employee conflicts. (4/6/07, 4/11/07)

Chairman Kennedy asks SEC to investigate acquisitions of stock by financial aid officers at University of Texas-Austin, University of Southern California, Columbia University and Fontana from President of Student Loan Xpress. (4/11/07)

Chairman Kennedy calls on the U.S. Department of Education to temporarily shut down student loan database to prevent inappropriate searches by lenders and to investigate previous security breaches. (4/16/07)

Committee on Education and Labor holds investigative hearing on student loan industry featuring Attorney General Cuomo. (4/25/07)

Legislative Options: Moving Forward

Higher Education Act

The reauthorization of the Higher Education Act provides Congress with an opportunity to ensure that student loan programs are working as effectively and efficiently as

possible for students and parents. There is a clear need for Congress to thoroughly review these issues during the reauthorization process and put a stop to any dishonorable practices within the college loan industry. Students and parents deserve to know that they are getting the best deal possible on their college loans and that all arrangements made between colleges and lenders are in the best interests of helping borrowers.

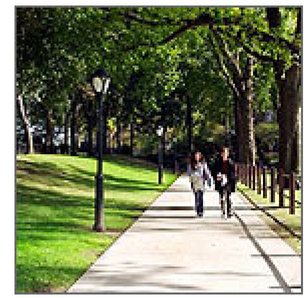
The Student Loan Sunshine Act

The Student Loan Sunshine Act, H.R. 890, protects students and parents from exploitation by private lenders and lenders who offer gifts to colleges as a way to secure loan business. Specifically, this bill:

- Requires full disclosure of special arrangements that lenders and institutions of higher education have to offer loan products at the institution;
- Bans lenders from offering gifts worth more than $10 to college employees, including travel, lodging, entertainment, and in-kind services that lenders provide to college financial aid offices;

- Requires full disclosure of the reasons why an institution of higher education has selected a lender for its "preferred lender" list, including any special arrangements the lender has with the school; and
- Encourages borrowers to maximize their borrowing through the government's loan programs before taking out alternative loans and direct-to-consumer loans with higher interest rates.

Student Loan Reform



The findings of the past few months point to excess subsidies in the student loan market. This past January, the House of Representatives voted overwhelmingly for H.R. 5 the College Student Relief Act, to limit some of these excess subsidies and instead direct these funds into the hands of students by cutting interest rates on student loans in half. This Congress will provide additional opportunities to ensure that the federally-backed student loan programs are as efficient and effective as possible for students, families, and taxpayers.

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