



Honest Lending, Fair Lending

*A Guide to Exposing Conflicts of Interests in School
Financial Aid Offices*

DEBT HITS HARD
www.debthitshard.org

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About Campus Progress

Campus Progress, part of the Center for American Progress, works to help young people - advocates, activists, journalists, artists, and others -- to make their voices heard on issues that matter. Through an on-line magazine and student publications, public events, and grassroots issue campaigns, Campus Progress acts to empower new progressive leaders nationwide as they develop fresh ideas and perspectives and seek to communicate in new ways.

Find out more at Campusprogress.org

Introduction

Students, especially incoming freshmen, typically trust that financial aid administrators have their best interests in mind when they direct students to options available in paying for college. Usually this assumption is correct; most school officials care deeply about getting students the best deal possible, and work hard to make a complicated process as painless and fair as possible. However, recent investigations by the New York Attorney General's office and Higher Ed Watch have found that, despite so many good intentions, the financial aid system often has been corrupted.

The student loan market has ballooned to a whopping \$85 billion annually. To get the biggest share they can of this enormous pie, many student loan companies seek to get on as many schools' "preferred lender lists" as possible. Preferred lender lists are created by college financial aid offices for student borrowers, and recommend a number of lenders for students to choose from when taking out a loan. Because students tend to borrow almost exclusively from the lenders included on this list, placement on the lists has become a lucrative marketing tool for many lenders.

If the lists were created through a transparent process that objectively determined which companies offer students the best loans and made the loan terms of each preferred lender clear to students so they could compare options, this approach list would be acceptable. Unfortunately this is often not the case. Instead, lenders offer enticements to influence and gain access to financial aid officers. These have included Caribbean conference junkets for financial aid staff and deals where schools got revenue and scholarship money from lenders based on loan volume. Some schools allow lenders to field calls from students at company-run call centers. Students and parents contact financial aid offices for what they believe is unbiased information on financial aid options, but end up speaking to lenders who often fail to disclose that the person on the other end of the phone is in fact in the lending business and has a clear conflict of interest. In some cases, financial aid officers were even given substantial stock options by a student loan company that appeared on their institution's preferred lender list.

With college becoming increasingly unaffordable and loans becoming the primary way by which student pay for their education, students depend more than ever on the advice and guidance of the financial aid office. When lenders compete by buying their way onto preferred lender lists, rather than through lowering their rates and offering better services, both students and taxpayers lose.

The current student loan system is supported by an expensive and excessive system of government subsidies. This means that the government has substantial leverage in structuring much of the student loan industry. The Department of Education and Congress need to examine what they can do to make the system fair, transparent, and cost effective. When possible, lender subsidies should be cut, and these funds should be used for interest rate cuts, need-based aid, and other efforts to make college affordable.

Under pressure as a result of investigations by the New York Attorney General, many of the largest lenders, as well as a few schools, already have adopted voluntary codes of

conduct. While this is great news for tens of thousands of students, many schools and most lenders have not changed their ways. It is up to students like you to find out if your financial aid office is working for the best interests of students, or if they have been more interested in benefits provided by lenders.

We have prepared a kit to help you figure out what questions to ask, and how to go about finding answers. We have also included news articles and other resources to help you put the issue in context. Our aim is to help student governments and organizations and campus journalists investigate their school's practices and policies, bring problems to the attention of the administration and student body, and to advocate for change.

Investigation Guide

Questions to Ask and Ways to Get Them Answered

The following questions can help to guide your research into the issue, and we have included some tips to help you find the answers on your own.

Your first stop, however, should almost always be at the financial aid office. Contact the office and ask to arrange an in person meeting, or a time when they can set aside some time to speak on the phone. Try not to be transferred to the school's public or media relations department, because they have less of the information you need and will often ignore requests that they think may be embarrassing. As a last resort, however, getting someone on record at your school regarding these issues is still helpful. Remember – be persistent, especially with media relations departments.

If you are unable to get an answer by asking and you go to a public school, you can file an open records request.¹ You can often access emails, calendars, memos, reports, contracts, and other documents kept on file by your university. Make sure to suggest a few search terms if the request involves anything that could be found on school computers. Check with local public interest groups for help filing open records requests, and for help appealing decisions by the school to deny part or all of the request.

If you are at a private university, you will have a more difficult time digging up files and other documents that would help you figure out what is going on. You may have to continue to call others in the financial aid office, the president's office, and others in the administration to find the information. Refusal to provide this information is a story in itself, and the extra pressure could help loosen lips. You can also check media stories for other work that has been done on the topic. Try contacting your U.S. Representative, U.S. Senator, or your state attorney general to see if they have information – some have taken a strong leadership role on this issue, such Sen. Edward M. Kennedy and Rep. George Miller (who chair the education committees in the Senate and House), and New York State Attorney General Andrew Cuomo.

¹ You can find an automatic open records request generator at the Student Press Law Center: <http://www.splc.org/foiletter.asp>. They also have a lot of great information about getting access to records here: <http://www.splc.org/legalresearch.asp?maincat=2>.

1. Does your school have a preferred lender list? What companies are on it? Are these companies independent, or are many subsidiaries of the same company? Does one or more of these companies eventually sell their loans to a larger lender, like Sallie Mae? How many lenders are included?

- Visit the financial aid department website. Often you will find the list there.
- There may be several different lists depending on the type of loan, and it may not be called a “preferred lender list.” Make sure you find every list of lenders given to students.
- You can usually find out who owns who by searching through the 10-K forms companies must file with the Security and Exchange Commission.² If that doesn’t work, give the company a call. Also, ask financial aid officers or the lenders themselves whether they typically sell their loans to a larger company like Sallie Mae.

Background

Preferred lender lists are assembled by schools to help students choose between the thousands of student lenders in the marketplace. Students traditionally follow the list closely when they choose who to borrow with. As a result lenders work very hard to get placed on preferred lender lists. Placement can mean millions of dollars in profit.

The fewer lenders on the list, the more lucrative the placement. On a list with only one lender, that bank could expect to get almost all of the student loan volume at that school.

Look closely – there may be fewer lenders than you think. Sometimes many of the lenders on a preferred lender lists are simply feeders for larger companies and offer identical terms.

Follow-up

- ➡ How does your school assemble their preferred lender list? What are the criteria do they use? Does it take into account the best deals for students? Who makes the decision? What percentage of loans given to students at your school originate from the preferred lenders?

2. Have lenders offered financial aid officers, other school employees, or the school’s financial aid office gifts such as trips, computers, call centers, staff time, a portion of loan revenue, scholarship funds, or other funds or services?

- Many schools (and all public schools) make their budgets public. Track it down and check it out for yourself. University budgets can be very confusing, so don’t be afraid to ask the college financial affairs office, accounting professors or professionals, or local public interests groups for help!

Background

Banks often use small gifts and lunches to gain access to administrators. Some banks even pay for expensive trips to “grease the wheels.” Examples of such trips include Caribbean vacations, golf outings and European excursions.

Some schools receive additional grant aid or loan funds to provide students. This money is provided as a way to woo schools to pick particular lenders. While it may help some students it also provides a corrupting influence on the choices presented on the preferred lender lists.

Other schools have bank staff doing core activities in the school’s financial aid office. Recent reports have disclosed schools letting lenders provide entrance and exit counseling for borrowers, running call centers to answer student’s questions about financial aid or providing staff to process loan applications. Any of these benefits could encourage the school to use one lender rather than the lender that is the best for students.

Follow-up

- ➡ If a lender is running a call center, providing entrance or exit counseling, or

² Visit <http://www.sec.gov/edgar.shtml>

providing temporary staff for your school’s financial aid office, what has your school done to make sure lenders are giving good advice to students? Do they have any guidelines or oversight, such as “secret shopper” calls?

- If the school is being given funds from a lender, how are those funds being used?
 - Try to find out if the funds created a net gain in student aid, or if the school used it as an opportunity to “free-up” funds for other purposes.

3. What policies does the school have regarding conflicts of interest or gifts received by employees?

- Check the school’s employee policies and regulations, and any documents they have on staff ethics. You can sometimes find this information online, but calling in to make sure you haven’t missed something is a good idea.

Follow-up

- If the school is public, what laws and regulations does your state have about state employees and officers receiving gifts?
 - You should be able to access all state laws online. Ask the state attorney general’s office or public interest organizations to help you identify relevant regulations.

4. What does the financial aid office do to inform students that they do not have to borrow from preferred lenders? What efforts has it made to educate students about the many loan options they face?

- Check the website and the materials in the financial aid office. Send someone “undercover” to see if options for students are made clear. Ask to sit in on entrance and exit counseling sessions.
- Interview new students who receive financial aid, and ask about the process.

Background

Although students have a right to choose any eligible lender they want, many are unaware that they are not limited by the choices presented in the preferred lender lists. Although some schools do a good job of informing potential borrowers of this fact, many preferred lender lists do not mention that student can and should shop around for the best terms.

5. Does the school co-brand brochures or other materials with a lender? What was the basis of the agreement that led to the co-branding?

- Check the financial aid department’s website, and the materials in its office.

6. Does a financial aid officer hold stock in one of the companies on your preferred lender list?

- Check the Security and Exchange Committee (SEC) filings for companies on your school's preferred lender lists. Unfortunately, it is often difficult to find a list of all stock owners for any given company, but under some circumstances some stock holders are made public. You can find SEC forms at:

<http://www.sec.gov/edgar/searchedgar/webusers.htm>

- Some schools and state governments require that some school officials file financial disclosure forms or other documentation of their financial holdings. Find out if the director of your financial aid department and other key staff members are required to file disclosure forms, and take a look at these documents. You may have to file an Open Records Request if you go to a public school. The state ethics commission, as well as local public interest organizations, may be able to help you identify who is able to file and whether the information is already publicly available.
- Use search engines! Google your financial aid officer and the companies you are researching. Be creative - you never know what will come up.

Background

Holding stock could create a financial conflict that encourages administrators to place the interests of themselves over those of their students. Recently three financial aid directors from the University of Texas-Austin, Columbia University and the University of Southern California were found to be holding stock options in one of the companies that were designated as preferred lenders.

7. Does anyone from the school or the financial aid office sit on the advisory board of a student lender?

- It may be difficult to find this out if no one wants to tell you. If the financial aid officer is unresponsive, then call the loan company and ask. If that doesn't work, you can try searching the lender's website.

Background

Lenders create so-called "advisory boards" as a way to gain access to financial aid administrators. Members of advisory boards have been given trips, tuition reimbursement, consulting fees and opportunities to buy stock as rewards. By placing financial aid administrators on their advisory boards, banks may have a better chance of securing the lucrative lending business at a particular school.

College Affordability Fact Sheet

- Over six in ten college graduates are burdened with educational debt. Of those, four in ten, and more than half of African-American and Hispanic borrowers, are burdened with an unmanageable level of debt. (Financial experts define unmanageable debt as the salary-to-debt threshold at which an individual is only able to repay his/her loans with significant economic hardship.)
- Total student debt in the United States is more than \$438 billion – and that's not including private loans.
- Between 2001 and 2010, 2 million academically qualified students will not go to college because they can't afford it.
- The average student today graduates with debt almost three and a half times that of graduates a decade ago -- and enters a job market where the average job pays them less than it would have in 2000.
- The general cost of living is increasing at a rapid pace. College textbooks, for instance, have tripled in price since 1986 and are becoming ever-larger culprits of student debt.
- Because interest on loans grows fast, every dollar someone spends while living on student loans could cost \$50 or more in the future.
- The average college senior now graduates with \$3200 in credit card debt and \$18,900 in student loans.
- Graduates of public colleges and universities accumulate almost as much debt as their peers at private institutions.
- Student debt is outpacing the starting salaries of jobs in teaching and social work, making it virtually impossible for many debt-laden graduates to pursue careers in fields where they are desperately needed. Nearly one quarter of all graduates from public universities and almost 4 in 10 graduates from private universities have levels of student debt that would become unmanageable at the salaries of starting teachers.
- More and more students are delaying major life decisions as a result of increased student debt. Thirty-eight percent of college graduates delay buying their first house because of debt, 14% delay marriage, 14% delay having kids. Compared to 1991, those figures have risen by margins of 52%, 75 % and 100%, respectively.

Sample Student Government Resolution

WHEREAS student loans on fair affordable terms are critical to providing opportunity in education;

WHEREAS there is a lack of openness in the manner in which many schools choose the companies on their student loan preferred lender lists;

WHEREAS schools often do not make clear on their websites, pamphlets, and other publications that students can choose any qualified lender regardless of their placement on a school's preferred lender list;

WHEREAS the companies on a preferred lender list often originate as many as 90% of the student loans awarded on many campuses;

WHEREAS investigations by state attorney generals, independent researchers, journalists, and others have revealed questionable relationships between lenders and many U.S. universities or their personnel;

WHEREAS these practices have included:

1. Revenue sharing agreements
2. Gifts, meals, and vacations offered to financial aid administrators
3. Stock options or other benefits provided to administrators for joining the lender's advisory board
4. Scholarship funds or special loans for financial aid offices,
5. Operation by lenders of call centers on behalf of school financial aid offices,
6. Brochures and other materials printed for financial aid offices

WHEREAS many of these practices create a significant conflict of interest, where a school or school official might have incentive to reward a lender not based on the lending terms and opportunities offered to students by that lender;

WHEREAS students should feel confident that the financial aid office has no higher commitment than making college as affordable and accessible as possible;

WHEREAS several other universities, including New York University, St. John's University, Syracuse University, and the University of Pennsylvania have adopted codes of conduct that regulate their relationships with lenders;

LET IT BE RESOLVED THAT the Board of Regents should work with student government to review the financial aid department's relationships with student loan companies, ensure that existing policies are sufficient to protect against conflicts of interest;

LET IT BE FURTHER RESOLVED THAT the financial aid and government relations office should work with student government to find ways to improve college

affordability and mitigate the impact of student debt by developing resources for students navigating the financial aid process, and advocating on both a state and national level to:

1. Increase need-based grant aid
2. Lower interest rates on federally regulated student loans
3. Improve the repayment terms and other borrower protections offered by federally regulated student loans
4. Improve the financial aid system by making it more cost-effective for taxpayers and more consumer-friendly for borrowers, including increasing opportunities for students to utilize the federal direct lending program;
5. Improve or create programs to increase awareness about financial aid resources among current and potential students, particularly in communities with low rates of college enrollment;

LET IT BE FURTHER RESOLVED THAT the University should adopt the following code of conduct:

Code of Conduct

I. Prohibition of Certain Remuneration to University Employees

A. The University shall require and ensure that no officer, trustee, director, employee, or agent of the University accepts anything of more than nominal value on his or her own behalf or on behalf of another during any 12 month period from or on behalf of a Lending Institution, except that this provision shall not be construed to prohibit any officer, trustee, director, employee, or agent of the University from conducting non-University business with any Lending Institution. As used in the preceding sentence and throughout the Agreement, a Lending Institution is defined as:

- (1) Any entity that itself or through an affiliate engages in the business of making loans to students, parents or others for purposes of financing higher education expenses or that securitizes such loans; or
- (2) Any entity, or association of entities, that guarantees education loans; or
- (3) Any industry, trade or professional association that receives money from any entity described above in subsections I-A-1 and I-A-2.

Nothing in this provision or throughout the Agreement shall prevent the University from holding membership in any nonprofit professional association.

B. The prohibition set forth in the previous paragraph shall include, but not be limited to, a ban on any payment or reimbursement by a Lending Institution to a University employee for lodging, meals, or travel to conferences or training seminars unless such payment or reimbursement is related solely to non-University business.

II. Limitations on University Employees Participating on Lender Advisory Boards

A. The University shall prohibit any officer, trustee, director, employee, or agent of the University from receiving any remuneration for serving as a member or participant of an advisory board of a Lending Institution, or receiving any reimbursement of expenses for so serving, provided, however, that participation on advisory boards that are unrelated in any way to higher education loans shall not be prohibited by the Agreement. Notwithstanding the above, this paragraph shall not prohibit any officer, trustee, director, employee, or agent of the University, who is uninvolved in the affairs of the University's financial aid office, from serving on a Board of Directors of a publicly traded or privately held company.

III. Prohibition of Certain Remuneration to the University

A. The University may not accept on its own behalf anything of value from any Lending Institution in exchange for any advantage or consideration provided to the Lending Institution related to its education loan activity. This prohibition shall include, but not be limited to,

- (1) "Revenue sharing" by a Lending Institution with the University,
- (2) The University's receipt from any Lending Institution of any computer hardware for which the University pays below market prices and
- (3) Printing costs or services.

Notwithstanding anything else in Section III, the University may accept assistance as contemplated in 34 CFR 682.200(b)(definition of "Lender")(5)(i).³

IV. Preferred Lender Lists

A. In the event that the University promulgates a list of preferred or recommended lenders or similar ranking or designation ("Preferred Lender List"), then

- (1) Every brochure, web page or other document that sets forth a Preferred Lender List must clearly disclose the process by which the University selected lenders for said Preferred Lender List, including but not limited to the criteria used in compiling said list and the relative importance of those criteria; and
- (2) Every brochure, web page or other document that sets forth a Preferred Lender List or identifies any lender as being on said Preferred lender List shall state in the same font and

³ See:
http://a257.g.akamaitech.net/7/257/2422/01nov20051500/edocket.access.gpo.gov/cfr_2005/julqtr/34cfr682.200.htm

same manner as the predominant text on the document that students and their parents have the right and ability to select the education loan provider of their choice, are not required to use any of the lenders on said Preferred Lender List, and will suffer no penalty for choosing a lender that is not on said Preferred Lender List.

(3) The University's decision to include a Lending Institution on any such list and the University's decision as to where on the list the Lending Institution's name appears shall be determined solely by consideration of the best interests of the students or parents who may use said list without regard to the pecuniary interests of the University;

(4) The constitution of any Preferred Lender List shall be reviewed no less than annually;

(5) No Lending Institution shall be placed on any Preferred Lender List unless the said lender provides assurance to the University and to student and parent borrowers who take out loans from said Lending Institution that the advertised benefits upon repayment will continue to inure to the benefit of student and parent borrowers regardless of whether the Lending Institution's loan are sold;

(6) No Lending Institution that, to the University's knowledge after reasonable inquiry, has an agreement to sell its loans to another unaffiliated Lending Institution shall be included on any Preferred Lender List unless such agreement is disclosed therein in the same font and same manner as the predominant text on the document in which the Preferred Lender List appears;

(7) No Lending Institution shall be placed on any one of the University's Preferred Lender Lists or in favored placement on any one of the University's Preferred Lender Lists for a particular type of loan, in exchange for benefits provided to the University or to the University's students in connection with a different type of loan;

V. Prohibition of Lending Institutions' Staffing of University Financial Aid Offices

A. The University may not allow and shall ensure that no employee or other agent of a Lending Institution is ever identified to students or prospective students of the University or their parents as an employee or agent of the University. No employee or other agent of a Lending Institution may staff the University financial aid offices at any time.

VI. Proper Execution of Master Promissory Notes

A. The University shall not link or otherwise direct potential borrowers to any electronic Master Promissory Notes or other loan agreements that do not allow students to enter the lender code or name for any lender offering the relevant loan at that guarantee agency. The University's link or direction referred to in the prior sentence shall comply with sections IV-A-1 and IV-A-2 herein.

VII. School as Lender

A. If the University participates in the “School as Lender” program under 20 U.S.C. § 1085(d)(1)(E), the University may not treat School As Lender loans any differently than if the loans originated directly from another lender; all sections of the Agreement apply equally to such School as Lender loans as if the loans were provided by another lender.

VIII. Prohibition of Opportunity Loans

A. The University shall not arrange with a Lending Institution to provide any Opportunity Loans as defined above in section I(A)(vi) if the provision of such Opportunity Loans prejudices any other borrower. Nothing in the Agreement, however, shall be construed to prevent the University from offering loans to international students, at fair market rates, when those students would be otherwise unable to secure a domestic loan.

Selected News Clips and Resources

Special Report: Student Loan Scandal – *Higher Ed Watch*

This is a great resource. It includes an extensive list of news paper articles, documents, original investigative reporting, and other resources on the issue. Higher Ed Watch, which is a project of the New America Foundation, broke several of the important stories that brought this issue to the public.

URL:

http://www.newamerica.net/programs/education_policy/higher_ed_watch/student_loan_scandal

Lenders Ply Aid Officials At Schools With Free Stuff* - *Wall Street Journal*

April 17, 2007

This article examines some of the “perks” that lenders use to entice financial aid officials.

URL:

http://online.wsj.com/article/SB117677731847672215.html?mod=todays_us_marketplace

Firms Reap Big Profits, Assume Nearly No Risk - *San Diego Union-Tribune*

April 15, 2007

This article gives a good overview of the financial aid market.

URL: <http://www.signonsandiego.com/news/education/20070415-9999-1n15loans.html>

Sallie Mae Will Pay Settlement of \$2-Million in New York Investigation of Lenders' Practices - *Chronicle of Higher Education*,

April 12, 2007

This article looks into the settlement reached by New York Attorney General Andrew Cuomo and Sallie Mae, which is the largest student loan company in the U.S. The settlement included \$2 million to help educate high school students about paying for college, as well as a code of conduct with respect to its interactions with financial aid offices. The company, however, has already pledged to operate in the same manner.

URL:

<http://chronicle.com/temp/reprint.php?id=bcr2ddt4828ysn45gpq0hzd741k0rwb>

Trade Group Saw Possible Conflicts in Student Loans* - *Wall Street Journal*

April 11, 2007

The article examines how the National Association of Student Financial Aid Administrators (NASFAA) rejected internal and external efforts to reform the lender/financial aid officer relationship. NSFAA has deep ties to student loan companies. Higher ed Watch has some great [blog post](#) about this issue as well.

URL: <http://online.wsj.com/article/SB117625662602665883-search.html?KEYWORDS=student+loans&COLLECTION=wsjie/6month>

Crib Sheet: Direct Loans – *Campus Progress*

March 2, 2006

This article examines the two major federal student loan programs: the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Loan Program (“Direct Loans”). The FFELP is the larger of the two programs, and involves the government guaranteeing the loans that private companies originate. The Direct Loans, on the other hand, are provided directly by the government. The later is substantially cheaper for tax payers, but opposed by powerful interests who give generously to political campaigns. Campus Progress has [more articles](#) on this issue.

URL: <http://campusprogress.org/tools/788/>

* - A subscription may be required to view the full article.

Contact Information

If you have questions or would like help with this issue, please contact Pedro de la Torre III at Campus Progress. You can reach him by emailing organize@campusprogress.org or calling (202) 481-8171. Campus Progress is interested in helping with the investigation, as well as assisting student efforts to fix problems on their campus and within the federal financial aid system.

CampusProgress.org is our daily web magazine, and we are always looking for submissions, including posts on our blog . If you are interested in contributing a piece on this or other issues to Campus Progress, visit:
<http://www.campusprogress.org/common/85>.