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Student Loans and Public Accountability

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Public trust in higher education has been dealt a blow as a result of scandals in the student-loan industry. College presidents, financial-aid officials, and university government-relations professionals have an important opportunity to demonstrate leadership and regain public support by answering calls for accountability with public steps that reaffirm their commitment to student access and success.

Context

With nearly two out of every three college graduates having borrowed money to pay for their higher education, the multi-billion dollar student-loan industry plays a ubiquitous role in students' college participation and success. As stewards of the public good, state colleges and universities must administer and deliver student financial aid according to the students' best interests, free from motivations of personal or institutional gain. Recent state and federal investigations have uncovered illegal and unethical practices in the student-loan industry, finding that some college financial-aid officials and lenders have developed what were termed "unholy alliances," leading to conflicts of interest and questionable dealings. Now that these investigations have exposed serious problems in lending practices to students, college leaders have a real opportunity to be forward thinking and responsive by fixing potential problems in the administration and delivery of student loans. The policy implications stemming from this scandal will permeate higher education as college presidents continue to find themselves in the middle of federal, state, system, and institutional efforts to reform the administration of student loans.

Observations

State Attorneys General have found illegal and unethical relationships between lenders and public colleges. New York State Attorney General Andrew Cuomo has led an investigation into the student loan industry, calling for 60 colleges in 17 states to respond to inquiries about their lending practices. Any college, in New York or elsewhere, was subject to the investigation if they enrolled New York residents who received student financial aid. The inquiries concluded that some college financial-aid offices had developed inappropriate quid-pro-quo relationships with lenders that were rife with conflicts of interest: revenue sharing between "preferred" lenders and colleges; lender kickbacks to colleges in return for being put on preferred-lender lists; college officials holding stock in preferred-lender companies and accepting compensation for serving on lenders' advisory committees.

Not every college scrutinized was found guilty of illegal or unethical lending practices during the investigations; in fact, those without lists of preferred lenders typically were not penalized. Those colleges that did acknowledge questionable alliances promptly acquiesced to the New York Attorney General's investigation by settling out of court, signing onto codes of conduct, and banning financial ties between colleges or college officials and lenders.

Still, a domino effect has taken place; a cascade of investigations has left the student-lending world spinning. Attorneys General in Illinois, Missouri, Nebraska, Florida, Texas, and California have set in motion their own investigations into lending practices in their states, albeit at different levels of engagement. Fallout from these investigations has been significant, and college leaders should expect continued involvement with federal, state, system, and institutional efforts to clean up any remaining illegal or unethical relationships between colleges and lenders.

The push for greater accountability has led to a tipping point in oversight of student lending. (Student loans were born in the 1965 Higher Education Act and were originally intended to serve financially needy students.) But as college costs and enrollments grew over the years, loan volume increased, students from families at all income levels began to borrow, and the federal government slowly deregulated the industry, encouraging more private lenders to make loans and loosening restrictions. Today the industry is large, complex, and yields immense profit-potential for lenders, since the average borrower who graduates from a public university owes over $17,000 in loans.

Whether a college has been directly or indirectly involved in the student-loan scandal, the fallout has led to a loss of public trust in higher education and in student-lending practices. Given the complex and expensive system through which students pay for their education, college leaders have the responsibility to regain this trust and answer calls for accountability by being responsive to reform efforts. After years of deregulation in the loan industry and considering the scarcity of public funds for higher education, government officials now are seeking greater accountability and imposing new regulations that will improve the fairness of the delivery of student financial aid. Reform in the loan industry is one example of the current far-reaching national efforts to improve accountability and transparency in delivering public services. Colleges and universities are not insulated from such oversight, particularly given the fact that the student-loan industry is an $85-billion-a-year enterprise that has benefited from limited federal oversight in recent years.

In addition to state efforts to investigate the student-loan scandal, the U.S. Department of Education and members of Congress are looking for ways to enforce greater accountability in the student-loan industry and in colleges' dealings with lenders. During this 110th Congress, members of the U.S. House and Senate are moving forward on the Student Loan Sunshine Act (House Bill HR 890 and Senate Bill S 486), which would require colleges to disclose all relationships with lenders, regulate preferred-lenders lists, and ban certain conflicts of interest, such as revenue sharing between college administrators and lenders. As oversight of student lending gains momentum in Washington, D.C., and in the states, expect issues such as transparency, accountability, and ethics in student lending to find their way into the pending reauthorization of the Higher Education Act.

The political battles among colleges, lenders, banks, states, and federal officials must not overshadow what is most important: students. Much of the media coverage and political response to the student-loan scandal has played out as a political deliberation about oversight, investigation, and regulation. While these discussions are necessary for reforming the system, it should not be forgotten that the scandal is taking place in an era in which student debt is more burdensome than ever before. Government support for student aid has shifted from grants to loans; more students are borrowing than ever before; and the cost of attending college is steadily rising, so the need for colleges to be strong advocates for students' interests is vital.

Students, especially first-generation and those from low-income households, often arrive at college with little or no knowledge about the financial and other risks associated with accumulating loan debt. When colleges designate preferred lenders based on incentives such as kickbacks, revenue sharing, or other financial benefits, they fail in their duty to serve students' best interests and erode public trust in colleges' stewardship. It is therefore incumbent upon college leaders to address the issues now exposed by championing practices that put students' best interests first. Doing so should allow higher education to emerge from the student-loan scandal with few, if any, blemishes.

Recommendations and Conclusions

Although most colleges observe ethical student-lending practices, in order to regain public trust damaged by the scandal and progress toward greater accountability, college leaders should consider the following recommendations.

Invest in training and other professional-development opportunities for campus financial-aid employees. Lenders will continue to court financial-aid officers in order to sell their products and services, so college and university staff members must be adequately prepared to adhere to ethical practices in administering lender relationships. In the past it has been the lenders, not colleges, that by and large have offered financial-aid officers training and professional-development programs. To increase the likelihood of serving the best interests of students, rather than lenders, the U.S. Department of Education should provide funding to colleges for development of professional training programs for financial-aid staff members. This will increase the likelihood that students' best interests will be served and will enable colleges and universities to remain committed to high standards of accountability. In the absence of federal support, college presidents can be proactive leaders by providing appropriate training and guidance for financial aid officials.

Preserve relationships with student-loan-advisory committees, but do not allow college financial-aid officials to accept compensation for their service on them. One of the common conflicts of interest that emerged during the student-loan investigations pertained to compensation for services provided by college financial-aid officers to lending companies. Student-aid officials frequently have served on advisory committees to lenders, which can contribute to greater responsiveness by lenders in meeting students' needs. However, ethical and legal issues arise when the lenders pay loan officials for their advice. While such service and collaboration can create useful networks that help improve the delivery and administration of student loans, college officials must not accept compensation or gifts that could induce them to steer business toward a lending entities that might not be in the best interests of particular students.

Colleges and systems should follow a code of conduct that prescribes appropriate and ethical standards for all financial-aid employees. That code should outline best practices that professional administrators value and strive to achieve. Conduct should be student-centered, which means that borrowers should not be restricted to selecting only from "preferred" lenders. Borrowers also should be well-informed about options involving the terms of the loans (i.e. interest rates, length of repayment, available discounts, etc.).

Rather than showing bias in favor of certain preferred lenders, financial-aid officials should help borrowers identify their options under federal programs before they turn to higher-cost private loans. To avoid potential conflicts of interest, systems or institutions may choose to have an independent third party audit the process when financial-aid officials create the lists of lenders to whom they refer students. Institutions may also consider having all financial-aid employees disclose any ownership interests or other relationships with lenders.

In the end, college presidents and financial-aid officials can use this challenging situation as an opportunity to demonstrate proactive leadership. Preventing and correcting unethical and illegal conflicts of interest on college campuses will ultimately improve the financial system that millions of students use to pay for their higher education. Given that the lending investigations are an extension of far-reaching calls for greater accountability throughout higher education, the controversy serves as a strong reminder of the need to bring about positive change and affirm college leaders' commitment to serving the public trust.

Resources

The Project on Student Debt, run by the nonprofit Institute for College Access and Success, works to increase public understanding of borrowing as a primary way to pay for higher education and analyses trends in student lending. **projectonstudentdebt.org**

United States Senate Committee on Health, Education, Labor and Pensions is responsible for higher-education legislation, and published the *Report on Marketing Practices in the Federal Family Education Loan Program*. **help.senate.gov**

Inside Higher Ed is a premier higher-education news source that has extensively covered the student-loan investigation. **insidehighered.com**

Education Sector is an independent education-policy think tank that published *Leading Lady: Sallie Mae and the Origins of Today's Student Loan Controversy.* **educationsector.org**

New America Foundation is a nonprofit public-policy institute with a special emphasis on education policy. Its *Higher Ed Watch* blog follows policy developments and news stories about college financial aid. **newamerica.net**

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