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Today's News

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Financial-Aid Officials Consider Effects of Loan Scandal and Forgo Perks From Lenders at Annual Meeting

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Washington

The National Association of Student Financial Aid Administrators, opening its annual conference here this past weekend, has the feeling of a campus fraternity on double-secret probation.

Gone are the drawings for free DVD players and restaurant gift certificates. Gone are the corporate-sponsored after-hours parties. College officials can still spend their daylight hours in hotel-basement conference rooms listening to hourlong seminars on federal loan policy, but with only "nonalcoholic beverages and light snacks."

The scaled-back scene reflects a year of turmoil for the association, known as Nasfaa, which remains under heavy scrutiny from both prosecutors and lawmakers who believe it has been encouraging what are now seen as improperly close ties between student-loan companies and the college administrators who recommend the companies to their students.

And standing around keeping an eye on the whole scene are monitors from the office of New York's attorney general, Andrew M. Cuomo. This year's event marks the beginning of a five-year period in which the prosecutor's office will staff the annual conference to make sure it complies with new ethics guidelines.

"We need to make clear to the public that we hear the noise, we hear the concern, we hear the outcry, and, as a profession, we are responding to it," Michael B. Goldstein, a lawyer with the law firm Dow Lohnes, who represents Nasfaa, said at the conference's opening session, where he outlined the new ethics rules.

Nasfaa's world began to change early this year when Mr. Cuomo wrote to 60 colleges and universities across the country, asking for details on how they choose the lenders they recommend to their students (*The Chronicle,* February 2).

That touched off a chain reaction of revelations and additional investigations that so far has led to settlement agreements in which more than two dozen colleges and 10 leading lenders have promised changes in their lending practices, and 18 colleges and lenders have agreed to pay more than $15-million in restitution to students or into borrower-education funds. In addition, at least six college administrators have lost their jobs for accepting financial benefits from lenders.

Mr. Cuomo's work also encouraged investigations in Congress, where Democrats already were promising to trim the profits of student lenders when the party took control in January. Pending legislation would ban a series of methods through which lenders share with colleges the profits they make from loans to their students.

And just last month, Dallas Martin announced he would retire from his $223,600-a-year job as president of Nasfaa after 32 years with the group. Mr. Martin wrote to Mr. Cuomo on March 19 calling the attorney general's investigation an "unwarranted character assassination" of college aid officials. Mr. Martin later apologized, saying he hadn't realized the extent of the industry's problems (*The Chronicle,* April 17).

Blaming Negative News Reports

The opening session on Sunday suggested that his group still wasn't sure what has happened to it, why, and what will happen next.

Mr. Goldstein and another Dow Lohnes lawyer representing Nasfaa, Sheldon E. Steinbach, repeatedly told the financial-aid administrators gathered at the Marriott Wardman Park hotel here that their problems were due largely to the misdeeds of only six of their colleagues -- those alleged to have accepted direct payments or stock benefits from a lender -- compounded by overly aggressive news-media coverage.

News reports on the scandal have failed to mention that those officials were only six among 13,000 financial-aid officials nationwide, Mr. Steinbach said. "These articles just undermine and have undermined as respectable and honest and hard-working a group as I know," he said.

Mr. Goldstein agreed. "Right now the only thing we see is the smoke coming from the isolated fires, and nobody is seeing the forest," he said, accusing major newspapers of failing to chronicle the many instances of financial-aid officials who behave in an ethical manner.

Neither he nor Mr. Steinbach, however, noted the dozens of college aid officials who accepted reimbursement from lenders for flights and hotels to "advisory board" meetings, sometimes at vacation-resort locations, nor the lender giveaways at Nasfaa's previous annual conference, which included iPods, DVD players, and lobster dinners.

The two lawyers also had little specific advice for association members who asked questions about matters such as whether local Nasfaa affiliates should continue to accept financial benefits from lenders.

"I can categorically say that we're not sure," given that policy is still being made by Congress and state legislatures, Mr. Goldstein said. "There's an enormous level of a lack of certainty."

New Stance on Sponsors

The four-day conference is crucial to Nasfaa financially, raising about a quarter of its $8-million annual budget, according to the group's filings with the Internal Revenue Service. Under the new rules, however, restrictions on lenders include a ban on "named sponsorship of specific Nasfaa conference activities and events." Contributors also are banned from "organizing, sponsoring or conducting any social activities directed toward annual conference attendees," according to the rules approved by the Nasfaa board in May.

"You won't see individual sponsorship signs or logos for meals, speakers, portfolios, napkins, pens, bags," said a Nasfaa spokeswoman, Mindy Kaplan Eline. "For instance, the conference portfolio that we give to each attendee will not have a sponsor logo on one side. Instead, sponsors are grouped together as donors and will be listed in the program alphabetically," rather than ranked by the amount of money each gave, Ms. Eline said.

Also missing is the extensive roster of U.S. Department of Education officials who attended past Nasfaa conferences to provide guidance to lenders and colleges on student-loan policy, Mr. Steinbach said.

Instead, policy-making officials from the department agreed to attend only one event, an overall update on legislative and regulatory matters.

"I'm sure that you will agree that this is a busy and eventful time in higher education," Sara Martinez Tucker, under secretary of education, said in a June 22 letter to Mr. Martin, explaining the decision. "As a result, we have been compelled to allocate our resources differently than in years past."

Fears of Losses for Students

The decision to cut back the department's presence at this year's politically charged Nasfaa conference, while perhaps due to scheduling needs, is a "real loss" for college financial-aid advisers and the students and parents who rely on them, Mr. Steinbach said.

It could be another sign that political responses to the student-lending scandal, in the long run, could ultimately leave students even more vulnerable, he said.

Already there are signs that students are facing increased levels of direct marketing from loan companies, raising the specter that colleges and their students could face the same types of predatory lending seen in the housing industry, he said.

"It is the equivalent of the subprime lenders coming to higher education," and college administrators need more information, not less, to help guard against it, Mr. Steinbach said.

Still, not everything has changed at Nasfaa's conference. The lenders continue to be allowed a form of paid membership in Nasfaa. And the conference agenda remains filled with seminars led by individual lenders, such as "Citizens Bank -- Comparing PLUS, Alternative Loans and Home Equity," and "KeyBank -- Financial Literacy for Students." Such forums provide lenders an opportunity to pitch their programs.

The seminars, however, do not violate Mr. Martin's promise to Mr. Cuomo to "eliminate named sponsorship of specific Nasfaa conference activities and events," Ms. Eline said.

"Some companies may still present seminars about their products and services," Ms. Eline said. "Our conference is an outlet for companies to teach financial-aid administrators about what they offer. It is a middle ground where Nasfaa has set the parameters for what takes place."

A spokesman for Mr. Cuomo, Jeffrey Lerner, said the monitors attending from his office would evaluate whether such events complied with the promised code of conduct.

Negotiating With Cuomo

Mr. Cuomo himself was invited to address the conference, but declined, citing scheduling constraints. The invitation itself sparked grumbling within Nasfaa, Mr. Martin acknowledged in a June 27 letter to association members.

"While I, like many of you, have disagreed with some of his public pronouncements that implied widespread inappropriate behavior throughout our profession, I do believe that his objective has always been to ensure that consumers are treated fairly throughout the student lending community," Mr. Martin wrote.

Such comments mark a turnaround for Nasfaa. Its initial rejection of Mr. Cuomo's investigations was tempered by revelations that included documents uncovered in April showing that a U.S. Education Department official, Matteo Fontana, and administrators at three leading American universities held stock in Education Lending Group, the original owner of the lending company Student Loan Xpress.

Even after those revelations, Nasfaa submitted a proposed code of conduct that would have let lenders pay "actual and reasonable expenses" for college administrators attending lender-organized meetings. Mr. Cuomo's office rejected that proposal, leading Nasfaa to draft a new policy code on May 24 that banned virtually any payments or compensation by lenders to college administrators.

While acknowledging the Student Loan Xpress stock holdings as an exceptional form of inducement, Mr. Cuomo cited the participation by college administrators on lender-sponsored advisory boards as a more widespread method by which lenders might be persuading colleges to skew their loan recommendations to students.

In some cases, those advisory-board meetings amounted to lavish lender-financed vacations for college officials and companions, including golf outings, spa treatments, tickets to sporting events, and meals at high-end restaurants, according to a June 14 report by Sen. Edward M. Kennedy, the Massachusetts

Democrat who is chairman of the Senate education committee (*The Chronicle,* June 15).

Mr. Cuomo persuaded Nasfaa, along with some colleges and lenders, to accept his "code of conduct" by both threatening the possibility of legal action and emphasizing the likelihood of action in Congress and state legislatures mandating such changes.

The U.S. House of Representatives voted 414 to 3 on May 9 to approve its version of the "Student Loan Sunshine Act" (HR 890), which would ban lenders from offering a variety of payments or benefits to colleges or their administrators. The Senate is working on a similar version.

Nasfaa, however, still has not entirely accepted Mr. Cuomo's pronouncements. One key element of a law passed in New York State, at Mr. Cuomo's urging, could treat Nasfaa as a lender itself, meaning it could not pay for its own members to attend Nasfaa meetings.

It's not clear that was the intent of New York legislators, and Nasfaa is working to clarify and perhaps amend the law, Mr. Steinbach said.

Other Issues at Meeting

Along with their own ethics controversies, Nasfaa members are facing other pressing problems. One study to be presented at the conference involves the question of whether nontraditional students are well served by loan policies.

"The current need-analysis system is really much more effective for dependent students than it is for independent students," said Sandy Baum of the College Board, who is scheduled to lead a conference session that will review studies examining financial barriers to education and the practice of tuition discounting.

Yet it's not clear that all independent students fare worse under the government's system for assessing their needs, since some have jobs or other resources that more-traditional students lack, said Ms. Baum, who is a senior policy analyst at the College Board and an economics professor at Skidmore College.

"Probably some independent students really don't get enough [money] to make it possible to study," she said, "and others get more than they need."
