Press Releases

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ATTORNEY GENERAL ANDREW CUOMO REVEALS DECEPTIVE PRACTICES IN THE COLLEGE LOAN INDUSTRY; SENDS LETTERS TO MORE THAN 400 COLLEGES AND UNIVERSITIES CAUTIONING THEM OF POTENTIAL CONFLICTS OF INTEREST; ADVISES COLLEGE-BOUND STUDENTS TO PROTECT THEMSELVES

Student Lending Brochure

NEW YORK, NY (March 15, 2007) — Attorney General Andrew M. Cuomo today revealed deceptive practices that he has uncovered in his nationwide investigation into the college loan industry. In a letter sent to every college and university in New York state, and certain other schools across the country, Cuomo warned them to end or fully disclose potential conflicts of interest in their relationships with private lenders. He also cautioned students and their families to protect themselves against these practices.

Industry practices revealed include: Establishment of so-called "preferred lender" lists without disclosing the basis for selection or the specific benefits associated with these preferred lenders; revenue sharing and other financial arrangements between schools and lenders; denials or impediments to a student or parent's choice of lender based on the borrower's selection of a particular lender or guaranty agency; impediments to competition in the lending industry that stifle better loan terms for students and parents.

Attorney General Cuomo said, "There is an unholy alliance between banks and institutions of higher education that may often not be in the students' best interest. The financial arrangements between lenders and these schools are filled with the potential for conflicts of interest. In some cases they may break the law."

Cuomo continued, "I do not want another college-bound class to be taken advantage of by schools or by lenders. Students and their families need to know about the practices in the industry so they can better protect

1. Lenders pay financial kickbacks to schools based on a percentage of the loans that are directed to the lenders. The kickbacks are designed to be larger if a school directs more student loans to the lender. And the kickbacks are even greater if the schools make the lender their "exclusive" preferred lender.

2. Lenders pay for all-expense-paid trips for financial aid officers (and their spouses) to high-end resorts like Pebble Beach, as well as other exotic locations in the Caribbean and elsewhere. Lenders also provide schools with other benefits like computer systems and put representatives from schools on their advisory boards in order to further curry favor with the schools.

3. Lenders set up funds and credit lines for schools to use in exchange for schools putting the lenders on their preferred lender lists.

4. Lenders offer large payments to schools to drop out of the direct federal loan program so that the lenders get more business.

5. Lenders set up call centers for schools. When students call the schools' financial aid centers, they actually get representatives of the lenders.

6. Lenders on preferred lender lists agree to sell loans to a single lender so there is actually no real choice for the student.

7. Lenders sell loans to other lenders, often wiping out the back-end benefits originally promised to the students without the students ever knowing.

Rebecca Weber, Executive Director of the New York Public Interest Research Group (NYPIRG), said, "NYPIRG, as a consumer group and a student group, is particularly concerned about deceptive lending practices that appear to target students and their families. The Attorney General is alerting the colleges to the dangers of doing business with predatory lenders and we think that's a crucial move as this investigation continues."

Cuomo also urged students and parents to use these findings to consider whether a college or university is currently engaged in questionable practices. The Attorney General's office has prepared a pamphlet to help those seeking student loans make more informed decisions. The pamphlet is being distributed to every high school in New York State. It is also posted on the Attorney General's website at www.oag.state.ny.us.

The investigation is being handled by Executive Deputy Attorney General for Economic Justice Eric Corngold and Assistant Attorneys General Joy Feigenbaum, Melvin Goldberg, and Kevin R. Harkins