

# NEWSLETTER

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## MAJOR LENDER EXITS FFEL PROGRAM

- CARINA ZARAGOZA

College Loan Corporation, the eighth-largest Federal Family Education Loan Program (FFELP) lender in the country, will exit the FFELP business on March 1, 2008.

The announcement came Thursday, January 31, 2008, in a statement made by the company's CEO, Cary Katz. He stated that "recent Congressional action has decimated the Federal Family Education Loan Program, essentially making it impossible for mid-sized companies like College Loan Corporation to participate in the federal loan marketplace. In addition, continuing disruptions in the credit markets have compounded the impact of the legislation."

College Loan Corporation will no longer issue new loans under the FFEL Program, including the popular Federal Stafford Loan and Federal Consolidation Loan. College Loan Corporation will now focus on the private loan sector.

College Loan Corporation is not the first lender to withdraw its business from the FFEL Program. Just one week prior, Nelnet announced it would no longer issue new consolidation loans. Michael S. Dunlap, Nelnet's chairman and chief executive officer, described the impetus for the decision: "The reduced economics of student loans created by the legislative changes and credit market disruption has forced us to make difficult decisions about our level of participation in the program." Nelnet withdrew from the federal consolidation business on January 23, 2008.

Both companies have been impacted by the College Cost Reduction and Access Act of 2007, which eliminated \$21 billion in federal subsidies to FFELP lenders. Coupled with the ongoing credit crisis in the country, many lenders have found it difficult to maintain profits and operations. Nelnet has been forced to cut jobs by 700 in the past few months alone.

College Loan Corporation, based in San Diego, CA, has been originating and consolidating loans since its founding in 1999 and was one of the most profitable lenders in the business, a remarkable feat for such a young company. However, in 2007, amidst the student loan probe spearheaded by New York Attorney General Andrew Cuomo, practices were made public that may have led to the company's profitability. College Loan Corporation settled on allegations that it misused financial aid counseling sessions to market its loans to students. It agreed to pay \$500,000 to the National Education Fund. In a similar settlement, Nelnet, based in Lincoln, NE, agreed to pay \$2 million to the fund.

Another San Diego-based company, Goal Financial, is no longer accepting applications for new loans.

## On the Net

Higher Education Washington Inc.  
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## **OVERPAYMENTS MADE TO LENDER MUST BE PAID BACK**

**- CARINA ZARAGOZA**

The Department of Education has demanded that the Pennsylvania Higher Education Assistance Agency (PHEAA) pay back an estimated \$15 million it inappropriately billed the federal government. PHEAA was able to bill such an exorbitant amount through a loophole in federal law that has since been closed.

The loophole allowed lenders that originated student loans using tax-exempt bonds to earn 9.5% in subsidized interest. The bonds used were issued prior to 1993, and lenders simply recycled the funds to continue to earn subsidized interest.

The amount the Department of Education determined that the student loan agency owes is about \$20 million less than the original findings by the auditor. PHEAA, however, is in negotiations with the Department of Education regarding how much it will have to pay back.

This is not the first time PHEAA has been in the headlines for causing controversy. The audit comes just months after the agency awarded six-figure bonuses to four top executives. In August 2007 PHEAA was criticized by politicians who believed the monies could have been put to better use, such as creating grants or loan forgiveness programs.

The audit is not the first of its kind. In 2005 the Department of Education found the New Mexico Educational Assistance

Foundation owed \$36 million it had wrongly collected in subsidized interest. However, the auditor's findings were rejected by Education Secretary Margaret Spellings. In 2006 Nelnet was found to have billed the government through this loophole a staggering \$1 billion. The Department of Education allowed Nelnet to keep \$278 million it had already received but did not pay the remainder. This settlement was not well received.

The Department of Education has long been criticized for its lack of policing of the student loan industry. Many believe such excessive overpayments have cost taxpayers and students. While only three lenders have been identified as partaking in exploiting this loophole, there may be other lenders who have received overpayments that simply have not been made public.

PHEAA, founded in 1964, currently maintains more than \$84.4 billion in assets. PHEAA and its associated loan servicer consistently rank among the top 10 FFELP lenders.

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## NEWS IN BRIEF

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### UCLA GETS CENTER ON CLIMATE CHANGE

Thanks to a donation and a matching-gift challenge, \$10 million will fund a new center for the University of California — Los Angeles School of Law. The donation was initiated by Dan Emmett, who is a real estate businessman in Santa Monica, CA. The center will focus on the environment and climate change. A law clinic and a law and policy program are the main foci as of now for the center.

### ST. MARY'S GETS THOUSANDS

Texas Attorney General Greg Abbott has given a generous donation to the St. Mary's University School of Law on behalf of the state. The money came from a lawsuit involving a local company. The company, Mark Nutritionals, claimed that its products would help people lose weight. The San Antonio-based company

had to donate a portion of its "consumers' funds" to a local university. St. Mary's will benefit by being able to expand its law clinic with more than \$100,000. In 2005, when the company filed for bankruptcy, the law schools at the University of Houston and Southern Methodist University also received money.

### ITUNES U HITS SUFFOLK LAW

Suffolk University Law School now joins six other law schools in the nation in using iTunes U. The program allows professors to upload digital content for students, including downloads, podcasts, and other resources subscribers can use. The program is being labeled "the campus that never sleeps." In the future students will even be able to watch events such as mock trial competitions. The University of Pennsylvania, the University of Arizona, Duke, Stanford, and New York University are also taking part in the program.