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175 South Lake Ave, Suite 200, Pasadena, California 91101

Tel: (800) 821.5659

Fax: (213) 895.7306

www.Edfed.com

Overpayments Made to Lender Must Be Paid Back

By 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.

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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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