Lenders Pay Universities to Influence Loan Choice
Jonathan D. Glater

Dozens of colleges and universities across the country have accepted a variety of financial incentives from student loan companies to steer student business their way, Attorney General Andrew M. Cuomo of New York announced yesterday.

The deals include cash payments based on loan volume, donations of computers, expense-paid trips to resorts for financial aid officers and even running call centers on behalf of colleges to field students' questions about financial aid.

"We have found that these school-lender relationships are often highly tainted with conflicts of interest," Mr. Cuomo said. "These school-lender relationships are often for the benefit of the schools at the expense of the student, with financial incentives to the schools that are often undisclosed."

Last year, students took out more than $85 billion in federal and private loans to pay for higher education. Mr. Cuomo began looking into incentives because many financial aid offices compile lists of "preferred" lenders, sometimes as few as two, and students rely on those lists rather than comparison shopping.

Mr. Cuomo said he was still investigating at least 100 schools. He is also notifying about 400 nationwide including all New York institutions to end any such practices, which can give financial aid officers an incentive to steer student borrowers to particular lenders. Mr. Cuomo did not name the schools involved. But state officials, who declined to be identified because the investigation is continuing, said large universities and small colleges, public and elite institutions alike had such deals.

Citibank pays Syracuse University a small percentage of the volume of private loans — those that are not guaranteed by the federal government — taken out by its students, according to state officials. Kevin Morrow, a spokesman for Syracuse, said in a statement, that the university was not prepared to respond in detail at this time. He added, "Students are not required to use any of the recommended lenders for their student loans."

A spokesman for Citibank said the company would not comment.

Drexel University in Philadelphia participated in an arrangement with another loan company, Education Finance Partners, under which the company paid a percentage of private loan volume back to the university, state officials said. Jeff Dillow, a spokesman for the company, said, "Education Finance Partners of course is cooperating."

Pace University and Mercy College, both with multiple campuses in New York State, have contracts with Sallie Mae, the nation's biggest loan company, under which the company operates call centers to respond to students about financial aid, according to state officials.

Christopher T. Cory, executive director of public information at Pace, said Sallie Mae employees take the calls and do not identify themselves as working for the lender. "They identify themselves as the Pace financial aid center," Mr. Cory said. He said that the call center did not push Sallie Mae loans and that the university periodically made "secret shopper" calls to ensure that call center advice was unbiased.

Tom Joyce, a spokesman for Sallie Mae, said the call center operators were "lender neutral," and added that the company was cooperating with the investigation.

A spokesman for Mercy College said he could not respond to questions at this time.

State officials also said that two other New York schools, Dowling College and the New York Institute of Technology, have agreements with Sallie Mae to participate exclusively with the company for consolidation of student loans. When students consolidate loans, they combine multiple loans from different lenders into a single loan with one lender, often to reduce interest rates.

Under the agreements, if students consolidated with a lender other than Sallie Mae on the college's recommendation, the institutions paid a penalty, state officials said.

Eric A. Kopp, director of communications at Dowling, denied that the college had such an arrangement with Sallie Mae.

Jacquelyn Nealon, vice president for enrollment services at the New York Institute of Technology, similarly said, "We are not involved in any kind of arrangement with Sallie Mae for consolidation of loans at all."

Mr. Joyce of Sallie Mae, said the arrangements do exist but do not bar students from consolidating their loans elsewhere. "It basically is saying that the school cannot enter into an arrangement with another party that provides an exclusive consolidation arrangement," he said.

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