

Student Loan Industry Forecast for 2008

By Carina Zaragoza

2007 saw turmoil in the student lending industry. While in previous years talk centered on federal student loan consolidation, giving the industry a huge boost in business, 2007 was laden with headlines on the questionable practices of not only student loan lenders but also colleges and universities themselves.

Beginning in mid-year, investigations and scrutiny regarding the student lending industry began with New York Attorney General Andrew Cuomo's inquiry into the lending and marketing practices of several student loan companies. This investigation began in July 2007, with the Federal Student Aid office (FSA) sending letters to 921 colleges and universities who seemingly had exclusive relationships with certain lenders. The letters were intended to remind the colleges and universities that they are required to provide borrowers various choices of lenders.

In October 78 colleges and lenders were identified as having suspicious business practices and were sent a second letter by the FSA requesting information and documentation. It is possible that evidence will surface of the existence of violation of the Higher Education Act of 1965.

If such evidence surfaces, then the investigation that began in 2007 can lead to further action against these 78 colleges and lenders in 2008. Here are some predictions as to what may occur in 2008:

- More program reviews, which may include on-site visits by the FSA
- Legal standards that enforce regulations and policies
- Probes into lender agreements with school-affiliated organizations
- Limitations on lenders and schools

The U.S. Department of Education has a long way to go, and the activity we saw in 2007 is only the beginning. Increased pressure by outside agencies and offices, such as Cuomo's office, should lead to further investigations, fines, and penalties. We have already seen a settlement by a Florida company that specialized in direct marketing of student loans. It is not unreasonable to expect further settlements in 2008.

[July 2007 Investigation](#)

[Settlement of Florida Direct Marketing Company](#)

[Federal Student Aid Office](#)

[Higher Education Act of 1965](#)