

New Jersey Loan Guarantor and Attorney General Reach Settlement

By Carina Zaragoza



The New Jersey Higher Education Student Assistance Authority (HESAA) and the New Jersey Attorney General have reached an agreement that ends an investigation into the loan guarantor's business dealings with two Federal Family Education Loan Program (FFELP) lenders. The details of the agreement were announced in a press release posted on the New Jersey Office of the Attorney General's website.

The state's attorney general, Anne Milgram, and U.S. Senator Edward M. Kennedy (D-MA) opened an investigation last May into the arrangements between the HESAA and two FFELP lenders, Sallie Mae and Nelnet. The investigation examined the legality of the arrangements, which resulted in the HESAA receiving about \$2.2 million per year from the lenders. The monies were a percentage of the volume of the loans steered towards the lenders by the HESAA. These business practices may have been in violation of the New Jersey Consumer Fraud Act, prompting the investigation.

While similar allegations were made about several college financial aid offices and student loan lenders, these were the first of their type to be made regarding a guaranty agency. The settlement (agreed to by both parties on February 6, 2008) reached between the HESAA and the attorney general's office represents an end to that investigation.

Among the agreements made between the HESAA and the state attorney general, referred to as an Assurance of Voluntary Compliance:

- \$7.8 million that the HESAA received from the lenders will be used to increase benefits to students, including:
 - Lowering student loan rates
 - Paying default fees
 - Providing scholarships
 - Increasing student loan forgiveness programs
- Independent monitoring of the HESAA will occur to ensure compliance with the agreement.
- Arrangements with lenders will end.
- Certain marketing practices will cease.

- A code of conduct will be adopted.
- A chief compliance officer will be hired within 60 days of the agreement to ensure the HESAA complies with state and federal laws.

To further ensure proper relationships between lenders, schools, and state agencies, Attorney General Milgram distributed a code of conduct to all New Jersey public and private higher education institutions. The code of conduct “prohibits financial ties between schools and student lenders.” Forty-one colleges and universities have thus far signed the code of conduct voluntarily. A few colleges and universities have adopted their own codes of conduct, which are being reviewed by the attorney general’s office to ensure they are similar to Milgram’s own. About nine colleges and universities have not adopted codes of conduct and are being investigated by the attorney general’s office.

The HESAA contributes \$1.2 billion in financial aid to New Jersey students each year. The funds are administered to students in the forms of scholarships, grants, and loans. The HESAA has been providing financial aid since 1959 and is one of 34 such guaranty agencies in the country.

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