



Highlights of [GAO-07-750](#), a report to Congressional Requesters

## Why GAO Did This Study

Concerns have been raised about the Department of Education's (Education) role in overseeing the lenders and schools that participate in the largest of the federal government's student loan programs, the Federal Family Education Loan Program (FFELP). GAO was asked to analyze Education's use of its oversight, guidance, and enforcement authorities under FFELP. To do this, GAO reviewed departmental documents and federal laws, regulations, and cases and interviewed officials from Education and the student loan industry.

## What GAO Recommends

GAO recommends that the Secretary of Education (1) update the department's oversight mechanisms to proactively identify possible instances of improper inducements and limitations on borrower choice, (2) be more proactive in investigating situations involving possible instances of these prohibited activities, (3) issue new guidance regarding inducements to guide the student loan industry until the relevant proposed regulations are finalized and become effective, and (4) develop a protocol to determine the appropriate level of response for cases of non-compliance and assess the effectiveness of these actions to inform and improve this protocol. Education agreed with the first two recommendations but did not explicitly agree or disagree with the other two.

[www.gao.gov/cgi-bin/getrpt?GAO-07-750](http://www.gao.gov/cgi-bin/getrpt?GAO-07-750).

To view the full product, including the scope and methodology, click on the link above. For more information, contact George A. Scott at (202) 512-7215 or [ScottG@gao.gov](mailto:ScottG@gao.gov).

# FEDERAL FAMILY EDUCATION LOAN PROGRAM

## Increased Department of Education Oversight of Lender and School Activities Needed to Help Ensure Program Compliance

### What GAO Found

While Education has some processes to oversee general compliance in FFELP, it has no oversight tools in place designed to proactively detect potential instances of lenders providing improper inducements—such as gifts to schools in exchange for preferred status on a school's suggested lender list—or schools limiting borrower choice of lender, two activities that are prohibited by law. Instead, the department primarily depends on external complaints to identify potential instances of non-compliance with these prohibitions. Historically, Education did not process these complaints in a systematic manner because complaint processing was not overseen by any one group. However, Education does have plans to conduct lender and school reviews to gather information on inducements, and it is considering updating its audit guides to begin detecting potential instances of improper inducements.

Education has not implemented formal comprehensive guidance on inducements since 1989, although it has repeated some of the information contained in that guidance in subsequent financial aid handbooks and other department publications. Instead, the department has responded informally to individual queries from the student loan community regarding allowable inducement practices. Education's Office of Inspector General recommended in 2003—and members of the student loan community have previously requested—that Education issue more guidance on these issues. In June 2007, Education issued proposed regulations that address improper inducements and limitations on borrower choice, and these regulations could become effective in July 2008 at the earliest.

Education has only attempted to use its sanctioning authority twice in the past 20 years to enforce prohibitions on improper inducements or limitations on borrower choice. In particular, Education disqualified one lender from FFELP for using misleading advertising and providing improper inducements to borrowers, and it initiated proceedings to limit the participation of another lender in light of what it had determined to be an improper inducement. When Education responds to non-compliance, the department instead has commonly sent letters to offending parties noting the prohibited activity and requesting they cease the activity. In addition, Education has not established a protocol for how to best respond to non-compliance—whether to write a letter requesting the activity to cease or to sanction a lender or school—nor has it routinely assessed the effectiveness of these actions in stopping prohibited activities.