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**STATEMENT OF SENATOR EDWARD M. KENNEDY ON TODAY'S REPORTS BY THE
DEPARTMENT OF EDUCATION'S OFFICE OF THE INSPECTOR GENERAL**

***New Report Requested by Senator Kennedy Unveils Repeated Abuses in 9.5% Loans; Second
Report Details Mismanagement in Federal Student Aid Office***

Washington, D.C. – Today, the Inspector General of the Department of Education released two reports detailing abuse and mismanagement of in the federal student loan programs. The first report outlines the results of an investigation requested by Senator Edward M. Kennedy related to abuses in the student loan programs by the Nelnet Corporation. The Inspector General found that Nelnet was claiming an indefensible 9.5% subsidy rate on a large volume of loans, in violation of the Higher Education Act and guidance provided by the Department of Education. The IG estimates that Nelnet received \$278 million in improper payments through June 2005, and could be paid \$882 million in additional overpayments if the billings are not corrected.

The second report is an audit of Financial Partners -- a division of the Federal Student Aid office at the U.S. Department of Education – that is responsible for monitoring the activities of the 3,400 lenders, 35 guaranty agencies, 72 third-party loan servicers, secondary markets, and other entities involved in the Federal Family Education Loan (FFEL) program. The audit finds that Financial Partners had a “weak control environment” for monitoring and oversight of the FFEL program; failed to report significant instances of non-compliance in its reviews of lenders, guarantors, and servicers; and did not have an effective communications process for dealing with problems.

“Today the Inspector General released not one, but two reports that call the operation of the loan programs into serious question,” said Senator Kennedy. “The first report, concerning Nelnet, uncovers egregious and repeated abuses in the student loan programs. Nelnet should be required to pay back the ill-gotten proceeds from these loans, and that money should be used to benefit students. We should invest scarce education dollars in students instead of bigger profits for banks. At a time when students and families are pinching pennies to afford college, it's deeply troubling that the Department of Education let hundreds of millions of dollars go to waste.”

“The IG’s audit of the Federal Student Aid office is just as troubling,” he added. “The Inspector General essentially found that the division responsible for monitoring the \$70 billion FFEL program is severely deficient in core aspects of its work. This report makes the strongest case yet for swift and dramatic reforms to the FFEL program, and a new effort to put the simpler, less-expensive Direct Loan Program on a level playing field.”

With respect to the Nelnet report, last year Senator Kennedy and his colleagues were able to make progress in closing a loophole in the law that allowed many lenders to grow their portfolio of student loans with the outrageous 9.5% subsidy paid by taxpayers. He has introduced legislation with Senator Patty Murray – the Student Loan Abuse Prevention Act (SLAP Act)

-- that would limit taxpayer exposure associated with existing 9.5% loans that otherwise may continue to get this subsidy for the next 15 to 20 years. This bill would give borrowers an incentive to consolidate these loans at a better interest rate for the students, but with a more reasonable government subsidy rate for the lender.

Kennedy said, “These reports should spur action in Congress to promote broader reforms in the

student loan programs. The current system squanders billions of scarce education dollars each year to guarantee that private lenders bear virtually no risk when they make loans, rewards guarantors more for collecting on defaulted loans than keeping borrowers in good standing, and favors the Federal Family Education Loan Program, which subsidizes private lenders, over the government's far less expensive Direct Loan program. No conversation about the future of higher education can move forward effectively without addressing this urgent problem."

Senator Kennedy has proposed legislation to provide sorely-needed reform to the dysfunctional student loan system and make it work better for students. The Student Aid Reward (STAR) Act would generate \$13 billion in new Pell Grants over the next 10 years -- at no cost to the taxpayer -- by promoting competition between the FFEL program and the less expensive Direct Loan program.

Senator Kennedy has also offered a plan to expand the income-contingent repayment program for student loans, so no borrowers have to put more than 15 percent of their monthly income toward loan payments and provide loan forgiveness after ten years to those in public service professions such as teaching, public health, and law enforcement.

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