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For Immediate Release  
Tuesday, July 24, 2007

Senators Seek Information from Education Loan Non-profit

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, along with Sen. Max Baucus, committee chairman, have asked an education loan non-profit group a series of questions about its management, structure, and expenses. The inquiry to EduCap comes after The Washington Post reported on the group’s operations. Grassley and Baucus have a long history of promoting the integrity of the charitable sector with careful oversight of tax laws favoring charities. The senators continue to look for ways to increase transparency in the charitable sector, promote fairness in grant-making, and protect organizations that do so much good from unscrupulous behavior and exploitation.

“The head of this organization invited critics to ‘take it up with Congress.’ I look forward to EduCap providing a complete response to our questions so Congress can have an informed view of EduCap and the laws governing nonprofit organizations,” Grassley said. “The EduCap board, with leaders such as the former FBI director and former vice chairman of the Joint Chiefs of Staff, needs to provide the public and the Congress with a full explanation of the charity’s management and operations. The taxpayers and Congress need full confidence that public charity executives aren’t enjoying private jet vacations on the backs of students being charged 18 percent loan interest rates.”

The text of the senators’ letter follows here.

July 23, 2007

Ms. Catherine Reynolds, Chairman  
EduCap, Inc. d/b/a Catherine B. Reynolds Foundation  
1676 International Drive, Suite 501  
McLean, VA 22102

Dear Ms. Reynolds:

The Finance Committee has a long tradition of reviewing tax-exempt organizations. It is important that the Congress and the public have confidence that public charities, which benefit from very significant tax breaks, are operated in a manner that helps those in need and the community at large. Nowhere is that more true than in the case of an entity that receives status as a public charity based on statements that its charitable mission is to assist students in meeting the costs of college. Students and their families struggle with the costs of paying for college and have a right to expect that a public charity established to help meet those costs is being operated in a manner that puts the interests of the students first.

The recent article in the Washington Post regarding EduCap as well as a review of EduCap's Form 990 raises serious questions. To assist the Finance Committee we request that you please provide the following information:

A. General

1. All documentation regarding the sale of a for-profit affiliate of EduCap, Servus Corp., to Wells Fargo. In particular, provide all documentation regarding valuation. Please detail any relationship you or your family have or had with Wells Fargo and its affiliates. Please detail where all the proceeds of the sale went.
2. A list of the officers, directors and employees of EduCap and Servus Corp. at the time of the sale, as well as all documentation regarding sharing of employees between the two entities.
3. An explanation of how this sale, with its attendant not-to-compete agreement, affected the way EduCap did business and explain any change or changes in operations after the sale.
4. Explain any changes in operations that occurred after the expiration of the not-to-compete agreement with Wells Fargo.
5. Describe the origin, purpose, activities, and status of Loan to Lend.
6. All documents relating to any securitization agreements (example, relating to bonds, sale of loans, etc.) EduCap has made over the last ten years. Explain how you treated these items for tax purposes. Provide all legal opinions that support your tax treatment of these items.
7. All documents relating to EduCap purchase of the Gulfstream IV jet, including contract and purchase price. Please provide all material justifying the purchase of the Gulfstream at the time the decision was made. Please explain how this expense is in keeping and consistent with a 501(c)(3) purpose. Please provide the year-by-year cost of maintaining and operating this plane.
8. Please provide a detailed log of all trips taken in the Gulfstream IV jet since its purchase. For each trip, include an explanation of its purpose, including whether and in what respect the trip furthered EduCap's tax-exempt purpose. Provide all passengers for each trip and an itinerary of the travel. Provide all documentation relating to whether and to what extent you or any other individual were reimbursed (or provided reimbursement) for the cost of any of these trips. Please provide all photographs and videotape of these trips. Please provide the same information for any other jet

chartered or owned by EduCap.

9. Please provide all emails, documents, memos and other material between EduCap and the American Academy of Achievement and ASC Management Company.

10. Describe whether any of the contributions to the Academy of Achievement are earmarked and, if so, the particular purpose of each such contribution.

11. Provide for the last three years, year-by-year, the gross and net revenues EduCap has received from all sources of revenue other than program service revenue and interest and dividend revenue. Describe each of these sources and list the dollar amount from each such source, also on a year-by-year basis. Provide all legal opinions that support your tax treatment of these sources.

12. Provide a copy of all legal opinions (including drafts) on tax matters, for the last ten years.

13. Please provide a copy of all board minutes for the last 5 years and particularly all board minutes related to the purchase of the Gulfstream IV jet and the sale of Servus. Please provide copies of all material provided to the board.

14. Submit all documents regarding EduCap's variable loan rate structure, including the standards EduCap uses in determining what rate to offer students, the percentage of students that are charged each particular rate, and the percentage of defaulted loans for each rate. Please explain how EduCap's rate structures compare to for-profit entities for similarly situated students. Please explain how EduCap acts in the best interests of students. Explain in detail how EduCap acts differently from a for-profit lending firm. In a letter to the Washington Post, the senior vice president of EduCap claims that "less than 4 percent of Educap's loans go to people who pay the higher rates." Please provide a discussion of how EduCap determines what students will pay the highest rate. Please provide a breakdown by race, gender, income and zip code of who pays what rate. In this breakdown, please indicate the number of loans that were cosigned. Please also provide the acceptance rate of EduCap issued loans to students who do not have a cosigner. Please provide a detailed discussion of what programs EduCap has that provide specific relief and assistance (example, scholarships) for low-income students who may not meet your criteria.

15. Please provide a list of all employees, officers and directors – job title and description and include all employees, officers and directors who have left EduCap in the last five years and their last known address.

16. Please provide a list year-by-year (for the last five years) of grants made by EduCap. Please provide a list of all relationships you (and your family), your board members (and their family), your officers (and their family) have with the grantees. Please provide a justification for these grants and the board minutes for their approval for expenditures. Please provide an explanation of how each grant is consistent with EduCap's recognized exempt purposes.

17. Please provide a list of all college/university officials (name, title and college) that have received free or discounted trips, meals or gifts from EduCap for the last ten years – this should also include all officials who had agreed or accepted to travel but did not travel because a trip was

cancelled (such as the planned trip to Nevis reported in the Washington Post). Please provide the cost for each trip (including hotel, gifts, recreation, estimated value of any private jet travel – and how that value was estimated, etc.) for each individual and the itinerary (both planned and actual). Please list all institutions for which EduCap is on the preferred lenders list. Please provide a copy of all emails, materials and other communications between EduCap and these college/university officials who received travel, meals or other gifts from EduCap. Please provide, for the last five years, year-by-year the top 10 colleges and universities for EduCap in terms of number of students and dollar amount.

## B. Pay and Benefits for Executive Officers

For the top ten compensated individuals from both officers, directors, trustees and key employees for the past three years:

1. Provide copies of their employment contract, deferred compensation and severance plans and any other compensation arrangements, including expense reimbursements. For the board, please provide all costs for the board for the last five years, including income, travel costs (to include travel itineraries), reimbursement for expenses, etc. Please provide a list of any grants and dollar amounts for all grants that were made at the request or suggestion of a board member or where a board member (or family) has a relationship.
2. Provide all material, discussion, legal opinions, compensation studies and analysis or other related items used by the EduCap board, compensation committee or other relevant governing body when making its decisions regarding the employees employment contract, deferred compensation and severance plans and any other compensation arrangements, including expense reimbursements. Provide all material documenting EduCap's compliance with Internal Revenue Code (IRC) section 4958 with respect to these items, including but not limited to copies of minutes of meetings from the EduCap's board, compensation committee or other relevant governing body as well as resolutions or written actions regarding such transactions.
3. Identify consultants, accountants, lawyers and or other outside advisors used with respect to the items requested in "B.1" and "B.2" above, and include names, addresses and total fees paid.
4. Provide a list and brief description of all no-bid contracts issued by EduCap and its affiliates and subsidiaries over \$100,000 for the last 5 years. Explain how no-bid contracts are awarded.
5. Provide copies of any conflicts of interest or similar policies as well as expense reimbursement and travel policies that have been adopted. Include an explanation of how EduCap processes expenses and requests for reimbursement. Please provide the receipts for all travel, meals and other expenses that were reimbursed for the top 10 employees (including directors and officers) for the last ten years. This should also include any travel, meals and other expenses reimbursed for family members. For employees and family members, please provide a detailed list and explanation of all costs (including the name of the individual that incurred the costs and their relationship with the employee) that were paid for by EduCap that were then later reimbursed by the employee (or other

individual).

6. Provide detailed descriptions of all transactions with disqualified persons (as defined in IRC section 4958(f)) and see also Schedule A- Part III, Line 2. Provide copies of legal opinions and minutes from board meetings discussing these transactions. Please provide this for the last five years.
7. Please provide a copy of all internal and external audits conducted by EduCap for the last five years as well as all related workpapers.
8. Provide your articles of incorporation (original, current and all modifications), bylaws (original, current and all modifications), application for exempt status, and the IRS determination letter. For the past ten years, please provide a brief description of individuals who served on the boards, a short biography, qualifications and how the board member was selected. Please detail any relationship, personal or professional that the board member has/had with you or your family. Please indicate who are the independent members of the board during the last ten years.

#### C. Internal Revenue Service Filings

1. Provide copies of all Forms 990-T and 1120 of affiliates and subsidiaries of the EduCap for the last three years. Please provide all copies of legal opinions provided, created or received by EduCap that discuss unrelated business income tax (“UBIT”) implications, including debt-finance income as well as Real Estate Investment Trusts (REIT). Provide a copy of EduCap’s most recently filed Form 990 and any amendments.
2. Disclose the identity of all supporting organizations (as defined in IRC section 509(a)(3)) and provide copies of Forms 990s for such organizations for the most recent three years.
3. Provide all correspondence with the IRS for the past ten years.
4. Tax-exempt bond liabilities. Please explain in detail what the proceeds were used for, and how soon after receipt bond proceeds were obligated.
5. Please provide the original 1023 filed by EduCap as well as any and all correspondence or other communication with the IRS as to significant change in operations.

#### D. Executive Compensation

For the past three years for individuals listed in Part V of Form 990 “List of Officers, Directors, Trustees and Key Employees,” and Part I “Compensation of the Five Highest Paid employees Other Than Officers, Directors and Trustees”:

1. Explain how EduCap established the amount of compensation and benefits.

2. Describe the nature of the components for each amount reported under compensation; contributions to employee benefit plans & deferred compensation; and, expense account and other allowances.
3. Describe the duties and responsibilities that each individual performed for you.
4. Do the amounts reported represent the total economic benefits each individual received from EduCap for the year? If no, please explain what other benefits were received, including the fair market value of those benefits.
5. Did EduCap establish the rebuttable presumption under section 53.4958-6 of the Foundation and Similar Excise Taxes Treasury Regulations as to the compensation and benefits reported for any of the individuals? If yes, please provide copies of all supporting documentation.
6. If the answer is no to “D.5.” for any of the individuals, do you have documentation supporting the reasonableness of the compensation and benefits reported? If yes, please provide a copy of this documentation.
7. Did the EduCap board approve the amount of compensation and benefits reported? If yes, please provide a copy of the approval for each individual.
8. Did EduCap have an employment contract or any other compensatory agreement with any of the individuals? If yes, please provide a copy of the contract or agreement.
9. Does the amount of compensation and benefits reported agree with the amount reported on each individual’s Form W-2 or Form 1099? If no, please explain the difference.
10. Did any of these individuals (or family members) use any property that EduCap owned or leased (such as an automobile, aircraft, real estate, credit card, etc.) for any purpose other than to further the organization’s exempt purposes? If yes, did EduCap include the value of this usage in the amount of compensation and benefits reported? Was the value included on the individual’s Form W-2 or Form 1099? Please provide copies of all such 1099s. If your answer to either of these questions is “No” please explain. Please provide details of all reimbursements that EduCap received from use of EduCap property. Please explain in detail what was the use of the property, who used the property and for what purpose, the dates, and the amount reimbursed (if any) and how the value was calculated for reimbursement. Please explain the relationship any of these individuals had to you or your family (as well as any board members and officers). Please provide copies of all cancelled checks from reimbursement to EduCap for expenses.
11. Please provide a detailed description of all cash loans made to or by EduCap in the last five years (or was outstanding). The amount of the loan, the applicable rate, who the loan was made to or from and for what purpose.

E Smithsonian

In the Finance Committee's review and the Independent Review Commission's report of the Smithsonian, there was a significant amount of discussion of about gifts or possible gifts from EduCap (d/b/a Catherine B. Reynolds Foundation) to the Smithsonian.

1. Provide all information about the history, initiation, suggestion, proposal and background of the \$38 million gift from EduCap to the National Museum of American History. Provide all record of contributions to the Smithsonian Institution. Provide all documents, agreements, contracts, memos of understanding, between EduCap and any part of the Smithsonian Institution, including any record of contribution or proposed contribution or donation. Please include copies of any original gift agreement(s) as well as any subsequent modifications to a gift agreement(s). Please provide all correspondence between you (or family members) or EduCap staff and the Smithsonian regarding any gift.

Thank you for your time and assistance. Please provide the answers to these questions within 30 days. Please provide the answers on searchable CD Rom. Please also provide a second searchable CD Rom that has redacted all material that EduCap views as sensitive for personal identification purposes, such as social security numbers, credit card numbers, etc.

Cordially yours,

Max Baucus  
Chairman

Charles E. Grassley  
Ranking Member

CC: EduCap Board of Directors