



THE CHAIRMAN

FEDERAL TRADE COMMISSION

WASHINGTON, D.C. 20580

May 31, 2007

The Honorable George Miller
Chairman
Committee on Education and Labor
U.S. House of Representatives
Washington, D.C. 20515-6100

Dear Chairman Miller:

I am writing in response to your May 2, 2007 letter in which you expressed concern about deceptive marketing practices in the student loan industry. I share your concern, and I am pleased to have this opportunity to describe our law enforcement, educational, and policy development activities to protect students and their families from harm.

The Federal Trade Commission (FTC) has broad and flexible authority under Section 5 of the FTC Act to bring law enforcement actions to prevent unfair or deceptive acts and practices. Over the past decade, the FTC has focused its resources on seeking to protect students and their families from scholarship and financial aid fraud.

In 1996, the FTC commenced "Project Scholar scam" to prevent and prosecute scholarship fraud and, as part of this project, the Commission has filed 13 law enforcement actions against alleged scam artists.¹ The FTC also has engaged in diverse and extensive

¹ *FTC v. Career Assistance Planning, Inc., et al.*, Civil Action No. 1:96-CV-2187-MHS (N.D. Ga.); *FTC v. College Assistance Services, Inc., et al.*, Case No. 96-6996-CIV-Highsmith (S.D. Fla.); *FTC v. Christopher Nwaigwe and Udoka Maduka*, Case No. 96-CV-2690 (D. Md); *FTC v. Student Assistance Services, Inc., et al.*, Case No. 96-6995-CIV-Roettger (S.D. Fla.); *FTC v. Student Aid Incorporated, et al.*, Case No. 96-CIV-6548 (S.D.N.Y.); *FTC v. Deco Consulting Services, Inc., et al.*, Case No. 96-7196-CIV-Nesbitt (S.D. Fla.); *FTC v. National Grant Foundation, Inc., et al.*, Case No. 97-7339-CIV-Lenard (S.D. Fla.); *FTC v. National Scholarship Foundation, Inc., et al.*, Case No. 97-8836-CIV-Ferguson (S.D. Fla.); *FTC v. College Resource Management, Inc., et al.*, Civil Action No. 3-01-CV-0828-G (N.D. Tex.); *FTC v. The College Advantage, Inc., et al.*, Civil Action No. 4:03-CV-179 (E.D. Tex.); and *FTC v. Integrated Capital, Inc., et al.*, Civil Action No. CV-N-03-0412-DWH-RAM (D. Nev.) (In addition, two contempt cases were filed against Integrated Capital).

educational efforts (in English and in Spanish) to inform students and their parents about how to avoid becoming a victim of scholarship scams. The agency continues to explore ways to increase the reach of these activities. For example, the FTC participates in a working group, coordinated by the National Association of Student Financial Aid Administrators, that is developing a coordinated consumer education campaign about scholarship scams. Further, pursuant to the College Scholarship Fraud and Prevention Act of 2000,² the Commission, the Department of Education, and the Department of Justice jointly prepare and file annual reports with Congress describing our continued efforts to combat scholarship and financial aid fraud. The agencies recently submitted their sixth annual report to Congress.³

Private student loans recently have become an increasingly important means for students and their families to finance education.⁴ As your letter emphasizes, some consumers have complained that lenders are using deception or other unlawful acts and practices in connection with private student loans. I agree that a strong and effective response is needed to prevent such conduct from causing harm to consumers.

Law enforcement will be a critical part of the FTC's response to concerns about private student loans. We are actively assessing whether lenders are making deceptive claims in violation of Section 5 of the FTC Act, including reviewing the two complaints forwarded with your letter. In addition, we are evaluating whether other laws that the FTC enforces are being violated. For example, lenders who obtain lists of consumers from credit reporting agencies and use that information to offer them private student loans must comply with the Fair Credit Reporting Act, 15 U.S.C. § 1681 *et. seq.* Lenders who use telemarketers to contact potential borrowers must comply with the Telemarketing and Consumer Fraud and Abuse Prevention Act, 15 U.S.C. § 6101-6108, and the Telemarketing Sales Rule, 16 C.F.R. Part 310. Debt collectors who seek to collect on private student loans must comply with the Fair Debt Collection Practices Act, 15 U.S.C. § 1601 *et. seq.*⁵

As the FTC has learned in addressing scholarship and financial aid fraud, consumer

² Pub. L. No. 106-420, 114 Stat. 1867.

³ Department of Justice, Department of Education, and Federal Trade Commission, *College Scholarship Fraud Prevention Act of 2000, Annual Report to Congress* (May 2007).

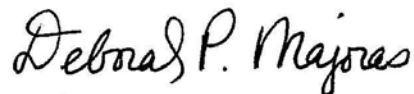
⁴ National Consumer Law Center, *Student Loan Law* § 1.5.1, p. 10 (3d ed. 2006).

⁵ The Commission has convened a public workshop "Collecting Consumer Debts: The Challenges of Change" for October 10 and 11, 2007, to evaluate a wide range of issues related to debt collection. An issue the workshop will consider is whether debt collectors engage in acts and practices to collect on private student loans that differ from their conduct in collecting on other types of loans, and, if so, whether changes in agency law, practice, or procedure are needed.

education, research and policy development, and other activities can be key complements to law enforcement action. The FTC staff therefore has created an intra-agency working group to consider all of the tools at our disposal to develop a comprehensive and effective approach to concerns related to private student loans. Among other things, the working group will consider ways to improve coordination and cooperation with public and private sector entities.

We will continue to keep the Committee apprised of our efforts in this endeavor. Thank you for your interest in the Commission's student loan program. If you or your staff have any additional questions or comments or wish to provide additional information, please contact me or have your staff call Jeanne Bumpus, the Director of our Office of Congressional Relations, at (202) [REDACTED]-[REDACTED].

Sincerely,

A handwritten signature in black ink that reads "Deborah P. Majoras". The signature is written in a cursive, flowing style.

Deborah Platt Majoras
Chairman