

**EDUCATION & LABOR COMMITTEE**

**Congressman George Miller, Chairman**

---

*Strengthening America's Middle Class*

Thursday, May 10, 2007  
Press Office, 202-226-0853

**Chairman Miller Statement at Committee Hearing On  
“Accountability for the Department of Education’s  
Oversight of Student Loans and the Reading First Program”**

WASHINGTON, D.C. – *Below are the prepared remarks of U.S. Rep. George Miller (D-CA), chairman of the House Education and Labor Committee, for a committee hearing on “Accountability for the Department of Education’s Oversight of Student Loans and the Reading First Program.”*

\*\*\*

Good morning.

Welcome to today’s hearing on “Accountability for the Department of Education’s Oversight of Student Loans and the Reading First Program.”

I’d like to thank Secretary Spellings for taking the time to testify before us today. We have a lot of ground to cover.

For several months now, investigations by this committee and elsewhere at the state and federal level have produced a stream of troubling revelations about unethical practices in the student loan industry.

We now know that, in the last several years, it has been common practice for lenders to offer gifts and other inducements to college financial aid officers in exchange for higher loan volume.

At a \$74,000 cruise paid for by JP Morgan Chase in 2005, student financial aid officers dined on five spice quail and filet mignon.

In one particularly egregious example of an apparent quid-pro-quo, Indiana University essentially accepted a \$3 million line of credit from Sallie Mae in 2004, and later dropped out of the government’s Direct Loan program.

We know that lenders have inappropriately accessed the National Student Loan Database in order to find private information about borrowers for marketing purposes.

We know that lenders abused federal law to reap questionable windfalls, costing taxpayers hundreds of millions of dollars in overpayments.

We know that lenders designed marketing materials to be deliberately misleading by making them look like official government correspondence in order to trick borrowers into responding.

All of these practices come at the expense of students and their families.

Lenders have spent millions of dollars to violate the law, and their illegal actions have cost families untold millions. At a time of soaring college costs, this is an outrage.

These practices also carry a high cost for federal taxpayers. At a time of tight budgets and huge budget deficits, this too is an outrage.

The federal student loan programs must be managed in the best interests of students, parents, and taxpayers. Doing so is the responsibility of the U.S. Department of Education.

I agree with New York Attorney General Andrew Cuomo, who testified before this committee last month and said that the Department has been ‘asleep at the switch’ when it comes to overseeing the federal student loan programs.

In fact, Mr. Cuomo might have been too polite.

Although I applaud the proposal in the administration’s 2008 budget to reduce some of the excessive subsidies made to lenders – subsidies that essentially finance bad lender behavior – the administration has otherwise failed to provide meaningful oversight of the student loan industry.

In 2001, the Bush administration scrapped plans to issue a Dear Colleague letter to schools and lenders instructing them to end the practice of trading gifts and other inducements for student loan volume.

In 2003, the administration ignored an alert memorandum from the Department’s Inspector General urging similar action.

In January 2007, the administration allowed nearly 300 million taxpayer dollars to walk out the door because of an antiquated loophole that allows lenders to bill the government at a higher rate of interest. The Department knew about this “9.5 percent loophole” for years – but failed to close it.

Over the last several months, New York Attorney General Cuomo has led the way with investigations into the student loan industry, and many other state attorneys general have begun their own investigations. But the U.S. Department of Education has been conspicuously missing in action.

What makes all of this even more troubling is that many Education Department officials who have worked directly on the student loan programs appear, according to press accounts, to have their own conflicts of interest.

Some have owned stock in student lending companies. Others are part of a revolving door between the industry and the Department. I am pleased that the Department's Inspector General has agreed to my request to investigate these conflicts of interest. We need to know whether these conflicts help explain the Department's incredible oversight failures.

The work of the Office of the Inspector General brings us to the second topic of today's hearing: Reading First, a program that has been rife with conflicts of interest that the Inspector General exposed in September 2006.

In a committee hearing last month, we heard testimony from three former members of a committee hand-picked by the Education Department to review products that educators use to assess children's progress in learning to read.

All three of those former committee members – Roland Good, Ed Kame'enui, and Deborah Simmons – profited either directly or indirectly from the sale of a specific reading product that states were inappropriately pressured to use if they wanted to get federal grant money.

We learned from the Education Inspector General about his referrals to the Department of Justice regarding potentially criminal misconduct by Reading First officials.

We also heard how the former Director of Reading First, Chris Doherty, had improperly bullied states into using specific reading products. Mr. Doherty's wife worked for an organization linked to those products, a fact that Mr. Doherty repeatedly failed to disclose on financial forms he filed while an employee of the Education Department.

Here again, we have to ask why the White House and the Department of Education allowed this mismanagement to continue unchecked. Mr. Doherty, in his testimony, provided one troubling explanation: that he was just following the Department's orders.

Mr. Doherty testified: "I respected the chain of command at the Department of Education, faithfully executing orders from superiors, which I never had reason to question, and keeping superiors informed about the program."

When I look at the whole body of evidence that has been amassed about both the student loan and Reading First programs, it is clear that – at a minimum – the Education Department's oversight failures have been monumental.

But many people, including me, are wondering if that's the end of the story. Was this simply laziness? Was this incompetence? Was it a deliberate decision to look the other way while these things happened? Or was it a failing more sinister than that? These are the questions that I'm hoping we will begin to answer today.

By an overwhelming vote of 414-3, the House yesterday approved legislation – the Student Loan Sunshine Act – to clean up the student loan industry. We are considering proposals to eliminate conflicts of interest from every program within the Department of Education, including Reading First.

I am hopeful that the testimony we will receive and the discussion we will have today will assist us in these efforts.

We must make sure that problems like the ones I have described do not repeat themselves.

Students, children, parents, educators, and taxpayers deserve to know that the government is working on their behalf – not for the financial benefit of a handful of well-connected individuals and organizations.

I now recognize the gentleman from California, the senior Republican of the Committee, Mr. McKeon.

Thank you.

<http://edlabor.house.gov>