FEDERAL FAMILY EDUCATION LOAN PROGRAM

More Oversight Is Needed for Schools That Are Lenders

What GAO Found

Between school years 1993–1994 and 2003–2004, lending by schools has increased significantly from 22 school lenders disbursing about $155 million to 64 schools disbursing $1.5 billion in FFELP loans, as shown below.

![Graph showing the amount of FFELP loans originated (in nominal dollars) from 1993-94 to 2003-04.]

Several schools we interviewed reported that a primary reason to become a FFELP lender was to generate more revenue for the school. About 80 percent of school lenders in school year 2003–2004 were private nonprofit schools, and almost all of them had graduate and professional programs in medicine, law, or business.

Most school lenders have contracted with other FFELP organizations to administer their loan programs and subsequently have sold their loans to earn revenue, but school lenders differed in terms of how they financed the loans made and when they sold their loans. About a third of the school lenders we interviewed used their own money to finance the loans they made, while the others obtained lines of credit from a bank or secondary market lender, in some cases from the same organization that eventually purchased the loans disbursed by the school lender. Most schools we interviewed reported using or planning to use revenues earned from the sale of loans to lower student borrowing costs or provide need-based aid.

A number of statutory and regulatory provisions applicable to all lenders and schools, and some applicable only to school lenders, exist to safeguard the interests of taxpayers and borrowers. FSA, however, has little information about how school lenders’ have complied with FFELP regulations. Under the HEA, FFELP lenders that originate or hold more than $5 million in FFELP loans must submit annually audited financial statements and compliance audits. In October 2004, FSA discovered that 10 of 29 school lenders required to submit an audit for fiscal year 2002 had not done so. Moreover, FSA has not conducted program reviews of school lenders. However, during the course of our review, three regional offices asked 31 school lenders about their compliance with the regulation pertaining to the use of interest income and special allowance payments for need-based grants.

What GAO Recommends

GAO recommends that FSA take steps to ensure that all school lenders are consistently complying with applicable statutory and regulatory requirements. Education agreed with our recommendation.


To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia Ashby at (202) 512-8403 or ashbyc@gao.gov.

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