

Nelnet Receives Double Whammy: Will pay \$1 Million Settlement to Joe Bruning in Addition to Original \$2 Billion Settlement

By Nihit Aurora

Nelnet is a leading student loans company in the United States that has diversified business interests in student loan generation, loan servicing, secondary market activities, and guarantor servicing. With offices located all over North America, it believes in making educational dreams possible for students across the United States.

With around \$26.2 billion in assets and \$6 billion in origination volume, Nelnet is the second-largest loans consolidator in the country. Moreover, it is the third largest holder of Federal Family Education Loan Program loans.

In February 2007, New York Attorney General Andrew M. Cuomo began investigations as part of a code of conduct his office drafted. Designed to eradicate practices that create conflicts of interest in the \$85 billion student loan industry, Cuomo's code of conduct revolves around student loan arrangements between universities and lenders.

This code of conduct prohibits certain practices like revenue sharing, giving gifts, funding trips for university professionals, and disclosure of the eligibility criteria and methods that universities use to select preferred lenders. Besides prohibiting employees of lenders from working in college financial aid offices, it is also an important part of settlement agreements between universities and major student loan providers.

Cuomo investigated the referral and lending practices of more than 60 universities, student lenders, and banks across the United States. These investigations revealed serious irregularities within the student loans industry such as payments of illegal kickbacks for inclusion on "preferred lender" lists. This discovery prompted further probing by several lawmakers and the U.S. Education Department.

Cuomo's investigations revealed that Nelnet had entered into referral agreements with around 120 college and university associations. These agreements allowed Nelnet to use university logos in their promotional materials while Nelnet paid these associations for exclusive referrals of their loans. These payments consisted of either annual fees or percentages of every loan consolidation the associations directed to Nelnet.

Nelnet had also violated the trust that students and graduates place in their universities and associations. Consequently, in a settlement reached with Cuomo, the company agreed to pay \$2 million towards a fund which educates students seeking education about loan options. Additionally, the company agreed to stop paying associations for exclusive referrals of their consolidated loans.

Joe Bruning, attorney general of Nebraska, forgave a \$1 million settlement that he filed against Nelnet in April 2007. He also declared himself a "defender" of the company. Bruning, a Republican running for the U.S. Senate, has received contributions from Nelnet. Nevertheless, Nelnet has decided to pay the settlement, in addition to the \$2 million settlement it reached earlier.

On the Net:

Attorney General Cuomo Announces Settlement With Nation's 2nd Largest Loan Consolidator
www.oag.state.ny.us/press/2007/jul/jul31a_07.html

Cuomo's Code of Conduct: Troubled Times for the Student Loan Industry
iblsjournal.typepad.com/illinois_business_law_soc/2007/04/cuomos_code_of_.html

Nelnet Will Pay Original Settlement, Too
www.abcmoney.co.uk/news/112007117397.htm