



U.S. DEPARTMENT OF EDUCATION (ED)
OFFICE OF POST SECONDARY EDUCATION

**Transcription for Negotiated Rulemaking Sessions
and Public Hearings 2012**

Deliverable 4: Transcription of Public Hearing held
in the 8th Floor Conference Room located at 1990 K
Street N.W., Washington, D.C. on May 31, 2012

The public hearings began as noticed in the
Federal Register at 9:00 a.m.



PRESENT

EDUARDO OCHOA, Assistant Secretary for
Postsecondary Education

LYNN MAHAFFIE, Senior Director for Policy
Coordination, Development and
Accreditation Services

DAVID BERGERON, Deputy Assistant Secretary
for Policy, Planning and Innovation

RON SANN, Office of General Counsel

AJITA TALWALKER, Office of the Under
Secretary

ALSO PRESENT

CYNTHIA LITTLEFIELD, Association of Jesuit
Colleges and Universities

ANGELIA MILLENDER, Broward College

MARK SARVER, eduKan

MEGAN MCCLEAN, National Association of
Student Financial Aid Administrators

VICKIE SCHRAY, Bridgepoint Education

JOAN ZANDERS, Northern Virginia Community
College

RICH WILLIAMS, United States Public Interest
Research Group

LAUREN SAUNDERS, National Consumer Law
Center

WES HUFFMAN, Coalition of Higher Education
Assistance Organizations

DANIEL TOUGHEY, TouchNet Information System

ERIC RODRIGUEZ, Nelnet Business Solutions

ARNIE MILES, Georgetown University

JOHN SUESS, University of Maryland-Baltimore
County

ROBERT BARBIERI, Higher One

CHRISTINE MULLINS, Instructional Technology
Council

CHRISTOPHER MULLIN, American Association of
Community Colleges

MAUREEN BUDETTI, National Association of
Independent Colleges and Universities

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1 P-R-O-C-E-E-D-I-N-G-S

2 9:06 a.m.

3 ASST. SEC. OCHOA: Good morning of
4 behalf of the U.S. Department of Education, I
5 welcome you to this public hearing. We
6 appreciate your interest and the time that
7 you're taking to share your thoughts and
8 recommendations with us.

9 Let me take a moment to introduce my
10 colleagues here with me.

11 David Bergeron, Deputy Assistant
12 Secretary for Policy Planning and innovation,
13 and Ron Sann, an attorney from our Office of
14 General Counsel.

15 As you know, we published a notice
16 in the Federal Register expressing our intent
17 to convene a committee to develop regulations
18 designed to prevent fraud in the Title IV
19 programs, especially in light of the
20 ever-changing and advancing technology.

21 Our intent is to ensure that Title
22 IV funds are used properly and are, in fact,

1 provided to eligible individuals for their
2 legitimate postsecondary pursuits. This
3 hearing is the first step in that process.

4 The Department held a similar
5 hearing last week on May 23rd in Arizona.
6 We're also accepting written comments through
7 our electronic system, and if you have actually
8 hard copies of those comments and you wish to
9 leave them with our staff outside the room,
10 you're welcome to do so as well.

11 In September of 2011, the Office of
12 Inspector General issued the Department an
13 investigative program advisory report
14 outlining concerns about fraud in distance
15 education programs.

16 As a result, the Department issued
17 a Dear Colleague letter, GEN-11-17, alerting
18 institutions to the issue and providing
19 guidance to assist in addressing it.

20 Since the OIG's report was
21 released, we have established an internal task
22 force to take a closer look at the issue,

1 presented the topic at several conferences,
2 including the most recent federal student aid
3 conference, and now are taking steps to look at
4 longer-term solutions.

5 In that context, regulatory changes
6 may be appropriate. Along with the issue of
7 fraud in the Title IV programs, we are
8 interested in looking at potential issues
9 around the use of debit cards and other
10 mechanisms for disbursing federal student aid
11 funds and improving and streamlining the
12 campus-based programs.

13 It's important to remember that
14 these regulations are being developed in the
15 context of current law. We can't change the
16 Higher Education Act through our regulations,
17 so some issues, such as the allocation formula
18 for the campus-based programs, are not on the
19 table.

20 That should not constrain anyone's
21 comments, but please recognize this important
22 limitation on our actions. The purpose of this

1 hearing is for us to hear from you. We will not
2 engage in a lot of dialogue or address questions
3 about what issues may or may not be part of an
4 eventual negotiating session.

5 We will use the information
6 provided to us at these hearings, as well as any
7 written comments we receive, to inform our next
8 negotiated rulemaking process.

9 We expect to announce the next round
10 of negotiated rulemaking during the summer
11 through a notice in the Federal Register that
12 will specify the subject matter for
13 negotiations and will request nominations for
14 negotiators.

15 Thank you again for being here.
16 And we will begin with our first presenter, who
17 is Cyndy Littlefield from the Association of
18 Jesuit Colleges and Universities.

19 MS. LITTLEFIELD: Good morning,
20 everyone. It's always such an honor to kick
21 off these sessions.

22 First of all, I want to say to Dr.

1 Ochoa, thank you for your years of service. We
2 understand you will be leaving us soon, so on
3 behalf of the Higher Ed community, I want to
4 thank you for all of your assistance and
5 availability that you have made to all of us in
6 higher education. So we wish you well, going
7 back to California, I understand.

8 Good morning, everyone. I am
9 Cynthia Littlefield, Director of Federal
10 Relations of the Association of Jesuit Colleges
11 and Universities. In this capacity, I have the
12 honor of representing all of the 28 Jesuit
13 campuses in the United States.

14 AJCU is also affiliated with 100
15 international Jesuit institutions, some of
16 which were founded in the 1500s, I might add.

17 I speak today in response to the
18 inquiry by the Department of Education on three
19 areas: distance education and potential fraud
20 and abuse; the use of electronic fund
21 transfers; and the potential of negotiating
22 on-campus-based aid programs for purposes of

1 meeting the President's executive order,
2 13563, improving regulation and regulatory
3 review.

4 We appreciate the opportunity to
5 have this dialogue today.

6 In the area of distance education,
7 AJCU founded Jesuit Net, our distance education
8 consortium, over 12 years ago, amongst our
9 Jesuit institutions, and we developed our own
10 competency-based distance education component
11 for all of our distance education courses.

12 To date, there are approximately
13 400 programs online, with many of our Jesuit
14 institutions also developing their own
15 distance education programs while utilizing
16 our competency-based distance education
17 program, which has been acknowledged by the
18 Department of Education.

19 Since the Jesuit institutions are
20 heavily engaged in distance education, any
21 discussion on future regulatory action
22 regarding distance education is of concern.

1 Also, it is exacerbated because of the
2 soon-to-be requirement of state authorization
3 on distance education.

4 There is a cause and effect on the
5 cost of that regulation alone, which according
6 to Regis University, is costing anywhere
7 between \$125,000 to \$150,000 to be distance
8 education authorized in all states in the
9 Union.

10 In consultation with our Jesuit
11 institutions, we asked if they were aware of any
12 potential fraud or abuse that could have
13 occurred in this area of distance education.
14 None of our institutions offered that there
15 were any concerns over fraud and abuse.

16 Two of our institutions expressed a
17 new trend of graduate students taking out a
18 heavy amount of loan volume. One institution
19 noted that 15 students dropped out of school
20 soon after they registered.

21 To rectify that problem, that
22 institution is now delaying disbursements

1 about two weeks, so the student can solidify the
2 beginning of their online work. In this way,
3 the serious students will be staying, and that
4 is one way to augment this potential concern in
5 prevention of fraud.

6 Another one of our institutions
7 proffered the following, that federal student
8 loans, between the Stafford and Grad PLUS loans
9 for grad students, can cover assumed tuition
10 and fees plus a reasonable allowance for room,
11 board, books, transportation, and
12 miscellaneous personal expenses.

13 It is left to the school's
14 discretion to define what is reasonable. Many
15 people are troubled if they see working adults,
16 many with potential good salaries, borrowing to
17 the cost of attendance figure for distance ed
18 online programs.

19 And so that is a developing trend
20 amongst two of our institutions, but certainly
21 not amongst the others.

22 From time to time, there's been

1 national articles that indicate potential
2 quality issues with some distance education
3 courses. At our Jesuit institutions, quality
4 is certainly equitable with the delivery of our
5 traditional-based education courses in person
6 on our campuses. And any new regulations to
7 weed out faulty abuse by other higher education
8 entities will also impact those institutions
9 who deliver quality distance education, much
10 like the gainful employment regulations.

11 If there is a negotiated rulemaking
12 session on this subject, then the hope would be
13 that all institutions are equitably
14 representative, including traditional-based
15 institutions.

16 Now in the area of using electronic
17 fund transfers, AJCU appreciates the study that
18 was released yesterday by the United States
19 student PIRG organization citing potential
20 complication with excessive fees charged by
21 banks to students.

22 The last thing any of us want in

1 higher education are more fees and higher
2 interest rates. Because of that, we
3 understand that there may be a need to delve
4 deeper into these complications.

5 Some of our Jesuit institutions do
6 not use credit cards, and still prefer using
7 checks for payments, while acknowledging that
8 it would be easier to track payments with debit
9 cards, etcetera, should there be a problem.

10 There are also now in place
11 third-party payment plans, of which everyone is
12 familiar with, such as the 10-month paying
13 plan, that a few of our institutions have in
14 place.

15 On one hand, you don't want to
16 interfere with an opportunity to provide
17 payment options for students and parents. On
18 another hand, you want to protect students from
19 excessive banking fees.

20 If this is the intended focus in a
21 potential negotiating rulemaking session, then
22 the only question AJCU would ask, and truly,

1 we're torn about this issue, if this is really
2 a regulatory or a legislative issue. Perhaps
3 it's a combination of both.

4 And the final area to address, and
5 the one of more -- most concern to AJCU, is the
6 campus-based aid programs, and this is our main
7 purpose for asking to speak today.

8 The campus-based aid programs at
9 our Jesuit campuses remain a very high
10 priority, second only to the Pell Grant
11 program. Each of these three campus-based aid
12 programs, the Supplemental Educational
13 Opportunity Grant, or SEOG, Federal Work-Study
14 Program, and the Perkins Loan Program, all
15 perform important niches in the delivery of
16 federal student aid to needy students.

17 The programs have worked well for
18 decades, the only problem being that there has
19 been insufficient funding to meet the heavy
20 demands by emergent student populations.

21 Ten years ago, to give an example,
22 our Jesuit institution had a 10 percent average

1 of Pell Grant student population. Now, we have
2 increased that population to 22 to 23 percent.
3 It has been a goal of our institutions to do so.

4 The SEOG Program described lately
5 as duplicative of Pell Grants is hardly the
6 case. SEOG is a campus-based aid program with
7 delivery of funds to the institution's
8 financial aid officer for distribution to the
9 neediest of students. Federal Work Study
10 assists students to pay their expenses while
11 working in school. And the Perkins Loan
12 Program, although not funded since 2004,
13 remains an excellent program for students to
14 avoid private loans at higher rates, and
15 provide opportunities for attending college.

16 So in an effort to be helpful today,
17 I polled our AJCU financial aid folks to see if
18 there were any regulatory issues on
19 campus-based aid that had to be addressed now
20 through the negotiated rulemaking process.
21 And all unanimously said no.

22 One institution wrote, "Any changes

1 to the campus-based aid program should be done
2 during the reauthorization process, where
3 program policy is foremost, rather than
4 budgetary issues, and where public comment is
5 more easily and readily attained from a wide
6 population."

7 Other institutions had similar
8 comments.

9 So the real question is, is there a
10 compelling reason to have a negotiated
11 rulemaking session on campus-based aid at this
12 time? We would answer, no, there is not.

13 In looking at the Department of
14 Education's plan for retrospective analysis of
15 existing regulations dated August 22, 2011, on
16 page 17, multiple questions are posed that the
17 Department will focus on.

18 One was, has Congress amended the
19 authorizing statute such that prompt review of
20 regulations is necessary? That answer is no.

21 Does the Department of Ed
22 anticipate reauthorization of the authorizing

1 statute in the near term, such that prompt
2 review of existing regulations would likely be
3 disrupted or not lead to regulatory revisions
4 that could be implemented before
5 reauthorization? And we would say the answer
6 is yes to that.

7 All of our Jesuit institutions are
8 concerned about the closeness of time to
9 reauthorization of the Higher Education Act.
10 Next year, hearings will begin, and the process
11 of reauthorization will start. Why waste the
12 time and effort of regulatory rulemaking when
13 Congress is beginning the reauthorization
14 phase? It simply makes no sense.

15 And on one particular program, the
16 Perkins Loan Program, of which AJCU is
17 extremely involved with, we are working with
18 the administration on the redesign of that
19 program, which was articulated in the beginning
20 on the FY `10 budget. As we go through this
21 process, we ask if it would be helpful to spend
22 time on regulatory rulemaking when this effort

1 is underway. Clearly, Congress has to decide
2 many of those issues.

3 And finally, there was serious
4 concern when the Department issued this
5 rulemaking notice that included campus-based
6 aid as a potential rulemaking opportunity that
7 it possibly meant that the Department was
8 trying to implement the administration's FY `13
9 budget priorities for attaching net tuition
10 pricing, needy student issues, and graduation
11 rates to campus-based aid programs.

12 Clearly, that has been articulated
13 by the White House and officials at the
14 Department of Education that that is not the
15 case. And we appreciate that.

16 So AJCU strongly encourages the
17 Department of Education to not include
18 campus-based aid programs in the upcoming
19 negotiated rulemaking session, because
20 reauthorization is months away, and there is no
21 overriding concern that regulatory relief is
22 needed because the programs function well.

1 It will be in the reauthorization
2 process where a healthy national debate will
3 occur on the viability of these campus-based
4 aid programs.

5 And finally, for the record, AJCU
6 supports the Department trying to minimize
7 regulatory burden for our colleges and
8 universities. It is just in the instance of
9 campus-based aid that the timing, we believe,
10 is not appropriate.

11 I want to thank you for this
12 opportunity.

13 ASST. SEC. OCHOA: Our next speaker
14 is Angelia Millender from Broward College.

15 MS. MILLENDER: Good morning, and
16 thank you. My name is Angelia Millender, and
17 I'm the Vice President for Student Affairs and
18 Enrollment Management at Broward College.

19 I don't stand here today speaking
20 for all community colleges in the United States
21 of America, nor do I stand here speaking on
22 behalf of just Broward College. I stand here

1 as a 30-year administrator and faculty and
2 teacher in the K through 12 system that has an
3 interest in this issue since we disperse aid to
4 30,000 in an open access institution.

5 I agree with the dialogue and will
6 support any action to curtail the fraud
7 associated with federal student aid funds. I
8 further support the recommendations made to
9 eliminate checks and use electronic funds
10 disbursements and making adjustments to the
11 cost of attendance for distance learning
12 students.

13 However, these two elements will
14 not fully resolve the issue, because students
15 who don't have bank accounts will get their
16 funds on pre-paid debit cards, which could be
17 no different from the recent fraud rings around
18 the federal tax returns.

19 As such, I would also include
20 additional components for a more comprehensive
21 approach to this issue. People who tend to
22 commit fraud and other crimes usually know, the

1 longer they stay around, the chance is, they
2 might get caught.

3 Certainly, the payoff comes too
4 soon in the semester, and this process alone
5 breeds Pell runners, which also lowers the
6 institution's student success rate.

7 If the ED does not change the
8 disbursement timing for online with these other
9 strategies, then the problem may continue. As
10 such, regulations that modify these processes
11 to include unequal disbursements should allow
12 direct cost, tuition, books, and fees to
13 disburse first, and no balance funds
14 immediately.

15 The balance could be disbursed
16 later in the term, which is similar to
17 incremental budgeting model by the grant
18 funders in California. Also, mandates on
19 institutions to include in their policies that
20 more than physical presence, as is required in
21 face-to-face instruction, be the same as
22 required in online instructional modalities.

1 Institutional officers also want
2 and need more flexibility and the discretion to
3 limit sub and unsubsidized loans for certain
4 groups of students, and require these students,
5 at minimum, to achieve a certain level of
6 academic success before loan debt is incurred.

7 Not limiting loans for students who
8 enter institutions like ours many times
9 under-prepared creates defaulters. The
10 amounts of money students can get prior to
11 showing signs of successful completion invites
12 fraud, whether online or in person.

13 Additionally, I would like to bring
14 focus to what I believe will be an unintended
15 consequence of the elimination of ATB. I know
16 that that is not the focus of the discussion
17 today, but I do recall that you indicated we
18 could make comments.

19 Students who earn high school
20 credentials not defined in the current ED
21 definition of high school diploma or its
22 equivalency are still allowed admissions to

1 open access institutions, such as community
2 colleges, but not -- will be allowed to get
3 federal student aid when the ATB provision is
4 eliminated.

5 Currently, prior to this regulation
6 being effective July 1st, these students could
7 take and pass an improved ATB test and qualify
8 for federal student aid. For example,
9 students who hold certificates of completion,
10 in most cases, have completed all credits and
11 compulsory attendance, but after July 1st,
12 2012, will not qualify for federal student aid.

13 This specific language eliminates
14 students who cannot pass high-stakes exit exams
15 and earn a credential with the word diploma in
16 its title.

17 This issue is deeper than the name.
18 Yet those who complete their GED at a minimum
19 cut score quality. The federal definition
20 allows homeschooled students who are not
21 required to pass high-stakes testing but only
22 require parental certification of high school

1 completion eligible for aid.

2 Further, a foreign diploma is
3 eligible for aid, as well as these others, based
4 on an equivalency determination that is not
5 always uniform.

6 And when you add diploma mills to
7 the picture, and those who get through our
8 system because even with our best efforts to try
9 to catch them, some will get aid.

10 In my opinion, states should
11 regulate those diploma mills as businesses, in
12 the business of education, rather than
13 institutions validating the paper they sell.

14 Make no mistakes, high school
15 graduates are no better prepared for college as
16 a result of the numerous high school completion
17 types than they were before we had them.

18 Many children are still being left
19 behind, and more will be left behind if the ED
20 allows the different definition of high school
21 completion to include the word diploma.

22 I could be -- it could simply be

1 stated that high school completion or its
2 equivalent in the language provided. These
3 credentials, regardless of what they are
4 called, will define these young adults for a
5 lifetime, add to their struggles to get a job,
6 and may cause them to eventually give up.

7 I stand here as an advocate making
8 a case for an opportunity for many. I
9 respectfully ask the ED to modify this language
10 in the federal student aid is under your
11 purview. I don't know what that takes.

12 These states' definition of high
13 school completion is too disparate for any
14 uniformity to make any sense. And
15 back-and-forth politics between the states'
16 Department of Ed and the US Department of Ed
17 must end on this issue.

18 I strongly believe that if measures
19 are implemented to curtail the fraud and
20 require students to show progress before mounds
21 of money are thrown at them, then we should have
22 no worries about these students who need

1 opportunity.

2 When a completion credential is
3 named something that does not qualify, we
4 further contribute to the victimization of No
5 Child Left Behind, literally.

6 Any educator should know that
7 high-stakes testing has made no difference but
8 made the testing companies quite profitable,
9 but it has not made any difference in the
10 overall success rates of students across this
11 nation.

12 I am appreciative of this
13 opportunity, and I certainly thank you for your
14 time.

15 ASST. SEC. OCHOA: Thank you. Our
16 next speaker is Dr. Mark Sarver.

17 DR. SARVER: Good morning. Thank
18 you for the opportunity to address this group
19 and present suggestions for regulatory changes
20 to further help institutions combat fraud and
21 protect students and taxpayers from fraudulent
22 activity.

1 As noted by the Inspector General,
2 fraud rings have taken advantage of the
3 expansion of distance education to commit
4 significant fraud against Title IV programs and
5 the higher education community. I am here to
6 represent that community.

7 My name is Dr. Mark Sarver, and I am
8 the Chief Executive Officer of EduKan, a
9 consortium of community colleges in Kansas.
10 And we have been delivering online education
11 since 1999.

12 The federal Pell Program is an
13 integral part of EduKan's mission to be
14 convenient, accessible, and affordable for our
15 students, many of whom are first-generation,
16 non-traditional learners who simply cannot
17 afford to enroll in postsecondary programs
18 without the assistance Pell provides.

19 It is my hope that my testimony
20 today will facilitate continued discussion on
21 the development of regulations designed to
22 prevent fraud and otherwise ensure the proper

1 use of Title IV, HEA program funds within the
2 context of current technologies.

3 I intend to illustrate the ways in
4 which a practical application of an existing
5 technology has the potential to deliver direct
6 benefits to postsecondary institutions, the
7 federal government, and taxpayers, by
8 detecting and preventing fraud, while also
9 indirectly benefitting the administration and
10 efficiency of financial aid programs by
11 reducing the burden on regulated parties as
12 mandated by Executive Order 22866.

13 Recognized in the distance
14 education arena for its innovation, EduKan has
15 pioneered many industry firsts, including the
16 use of gesture-based biometrics for student
17 authentication.

18 Although we were initially driven
19 by our commitment to reduce the cost and burden
20 of physical proctoring of tests, once launched,
21 we quickly realized the potential value of
22 biometrics to address the issues of academic

1 integrity, particularly financial fraud.

2 EduKan is the first institution in
3 the country to fully implement this technology
4 into our learning management system as a way to
5 not only corroborate identity, but to also
6 systematically and proactively analyze
7 available data to detect and deter possible
8 fraud.

9 When a student enrolls in an EduKan
10 class, he or she is required to establish a
11 biometric profile using an input method they
12 already have on their computer, such as a mouse,
13 touch pad, keypad or stylus.

14 Because each student's gestures are
15 as unique as a fingerprint, each time a student
16 authenticates his or her identity, the system
17 captures those unique gestures.

18 For example, I created a biometric
19 profile using my finger and my touch pad. My
20 unique identifier or password is 224. Even if
21 you watch me create the profile, you would not
22 be able to authenticate the identity

1 successfully because you cannot replicate my
2 gestures. My speed, height, angle and
3 approach is unique as my fingerprint.

4 In addition to recording the
5 original gesture and comparing it to data
6 points from previous authentications to ensure
7 accuracy, the program also captures the IP
8 address of the person's computer, which allows
9 us to identify those students who are working
10 together or in the same location at the same
11 time or submitting the same answers.

12 Dynamic gesture-based biometrics
13 like the system used at EduKan can be used to
14 identify Pell runners and straw students
15 participating in a fraud ring.

16 Although many schools are
17 front-loading courses with mandatory
18 faculty-student engagement activities, Pell
19 runners have learned how to circumvent these
20 preventative measures.

21 Even if a ringleader enrolls a large
22 number of straw students, a biometric

1 authentication program will prevent successful
2 authentications, while a close examination of
3 IP addresses will reveal the identity and
4 location of the fraudulent activities.

5 Furthermore, the random-generated
6 requests for authentication will expose
7 individuals attempting to complete and submit
8 fraudulent academic work. Logging off before
9 an authentication is an indicator of potential
10 fraud.

11 A biometric program like the one we
12 use at EduKan will provide data to support
13 further investigation into the students'
14 activities and resulting disciplinary action.

15 It was our intent to have a program
16 in which the average, honest student can easily
17 enroll and successfully complete their
18 coursework. However, I firmly believe that
19 institutions must expand, that the practical
20 application of biometrics to confirm student
21 identity across multiple events as part of the
22 application, enrollment, and attendance

1 process, in combination with retaining IP
2 information in the student data system, will
3 set the standard for fraud detection and
4 prevention in higher education.

5 I would ask the members of this
6 committee to consider how the use of dynamic
7 gesture-based biometrics can be deployed at
8 college campuses, particularly those that are
9 primary targets of Pell runners.

10 And I thank you for the opportunity
11 to address this committee. I would entertain
12 any questions, if you have any.

13 ASST. SEC. OCHOA: Any questions?

14 DEP. ASST. SEC. BERGERON: No
15 questions.

16 ASST. SEC. OCHOA: Our next speaker
17 is Megan McClean.

18 MS. McCLEAN: Good morning,
19 everyone. On behalf of the National
20 Association of Student Financial Aid
21 Administrators, I thank you very much for the
22 opportunity to comment on proposed negotiated

1 rulemaking issues this morning.

2 NASFAA has always believed that
3 negotiated rulemaking remains the best process
4 for promulgating regulations, and appreciates
5 the history of collegiality that ED has
6 developed in its approach to this statutory
7 requirement.

8 We'd like to begin with just a
9 general observation, that the biggest problem
10 we've seen with the negotiated rulemaking is
11 the tendency to overload a single team with more
12 issues than it can reasonably and effectively
13 cover.

14 Therefore, we urge ED to invest
15 sufficient resources in this endeavor to
16 maximize its effectiveness.

17 On today's topics, we offer the
18 following comments. Related to the
19 campus-based programs, we appreciate ED's
20 ongoing efforts to meet the President's
21 directive to conduct a retrospective analysis
22 of regulations. The campus-based program

1 regulations are generally well-constructed,
2 but have not been given a comprehensive review
3 for some time.

4 Given how close we are to
5 reauthorization, this may not be the most
6 optimal time, but should it occur, we do have
7 a few suggestions.

8 In the federal Work-Study Program,
9 we suggest a review of time sheet and
10 record-keeping rules and disbursement options
11 to determine whether changes are needed to
12 allow or maximize the use of current
13 technologies.

14 We also suggest reviewing the
15 program's specific disbursement rules to
16 determine whether they can more efficiently be
17 incorporated into the general provision cash
18 management rules.

19 In the FSEOG Program, one of the
20 persistent issues that institutions find
21 difficult is the order of awarding. The law
22 requires priority for Pell Grant recipients,

1 and that within that priority, awards must be
2 made to students with the lowest EFCs. However,
3 the requirement to award strictly in lowest EFC
4 order is an interpretation of the law.

5 We would like to see more
6 flexibility in how the institution could
7 identify the lowest EFCs, including a
8 reasonable cutoff that the school can set,
9 based on its experience in packaging its
10 student population.

11 On another topic, two issues
12 related to the return of Title IV funds got
13 short shrift due to lack of timing during the
14 program integrity negotiations. Our members
15 continue to express confusion over the
16 treatment of modules and the definition of
17 withdrawn.

18 We believe those issues should be
19 revisited, and given the opportunity for a
20 fuller discussion than occurred at the previous
21 negotiation.

22 With regard to fraud, we believe

1 that due diligence is more common than
2 indifference on the part of schools. It's
3 important to bear in mind that fraud does not
4 look the same everywhere, and that one school's
5 indicator of fraud may be another school's
6 normal student characteristic.

7 We urge ED to recognize that schools
8 know their populations best.

9 At the same time, we believe ED can
10 help support and expand institutional efforts
11 in a number of ways: providing training in
12 recognized fraud and facilitating best
13 practices on institutions of similar types
14 would be very useful.

15 In addition, many schools are
16 fearful of invoking professional judgment, and
17 therefore, ED could more strongly support
18 school use of this provision.

19 A report on fraud in distance
20 education by the OIG released last September
21 pointed out other actions that ED could take to
22 assist schools in identifying potential fraud.

1 OIG suggested that ED establish
2 computer-matching agreements with prison
3 systems to help identify applicants that are
4 incarcerated and therefore ineligible for most
5 forms of federal student aid, as we've seen that
6 inmates are apparently a target of some fraud
7 rings.

8 The OIG report also observed that ED
9 has the ability to collect and analyze web
10 server logs for IP information in its own
11 systems, as well as examine and correct
12 vulnerabilities in its systems that create
13 opportunities for the fraud rings to operate.

14 Centralizing the effort to identify
15 potential fraud as much as possible would
16 greatly improve the efficiency of those
17 efforts.

18 We also believe that ED needs to
19 improve its own response to reported fraud from
20 schools. One of the biggest frustrations that
21 we have heard from schools is that when they
22 report suspected fraud, nothing happens.

1 Schools should not be expected to
2 act as enforcement agencies, but should be able
3 to rely on government agencies that are
4 responsible for investigation and enforcement.

5 And finally, this morning, we just
6 want to wrap up by saying that we think it's
7 important as a community to recognize that
8 despite its challenges, distance education is
9 here to stay, and is a fixture of our modern
10 world. It will get more sophisticated, and we
11 don't want to inhibit innovation or the ability
12 to react to new threats.

13 Thank you very much for your time.

14 ASST. SEC. OCHOA: Next speaker is
15 Vickie Schray.

16 MS. SCHRAY: Good morning. My
17 name is Vickie Schray, Vice President of
18 regulatory affairs for Bridgepoint Education.

19 The mission of Bridgepoint
20 Education is to provide high-quality
21 innovative education services to enrich the
22 lives and communities the company serves.

1 Bridgepoint owns and operates two
2 regionally-accredited universities, Ashford
3 University and University of the Rockies.

4 Bridgepoint Education's
5 institutions offered over 1,400 courses, 85
6 degree programs with 140 specializations. Our
7 total enrollment, as of March 31st, 2012, was
8 94,863 students, of which 99 percent were
9 exclusively attending classes online.

10 Before I offer my recommendations,
11 I would like to commend the US Department of
12 Education for their approach in responding to
13 the Inspector General's investigative program
14 advisory report.

15 Rather than immediately launching
16 into rulemaking, the Department sought to
17 better understand the issue by meeting with
18 institutions and creating an internal task
19 force to better explore the issue.

20 I encourage the Department to
21 continue this collaborative approach to
22 addressing important issues that affect

1 taxpayer investment in higher education and our
2 nation's students.

3 While the proliferation of distance
4 education has been a major driver in helping to
5 provide greater access to students who did not
6 previously have access to higher education, it
7 has also created new vulnerabilities in the
8 administration of Title IV.

9 The growth of online education has
10 been viewed by some as contributing to the
11 transformation of higher education and playing
12 an instrumental role in helping to meet the
13 President's completion agenda.

14 Development of burdensome
15 regulations that lag best practice would be
16 detrimental to the promise of increased access
17 and choice to our nation's students, especially
18 those that have been traditionally
19 under-served.

20 No fraud or abuse of the Title IV
21 funds can be tolerated. The issue of
22 preventing fraud in higher education is far too

1 important to wait for the promulgation of final
2 regulations.

3 Instead, we encourage the
4 Department to work collaboratively with
5 institutions to identify those issues that can
6 be addressed immediately under current
7 authority, and second, those issues that may
8 require regulatory or statutory changes.

9 First, issues that should be
10 addressed under current authority. As the OIG
11 reported, the scope of this problem is too large
12 for the OIG to investigate on its own.

13 Conversely, given the complexity
14 and national scope of the issue, institutions
15 need assistance from the Department to
16 effectively thwart the efforts of the fraud
17 rings.

18 As my colleague from Ashford
19 University testified at the Phoenix hearing,
20 our institution has invested in technology,
21 policies, procedures, training, and staff to
22 detect and prevent fraud in our distance

1 education programs.

2 Institutions are clearly the first
3 line of defense, but greater communication and
4 sharing of pertinent information related to
5 potentially fraudulent activity by individuals
6 is needed.

7 An important role for the
8 Department of Education is to collect
9 information that would be used to alert and
10 assist institutions in their detection and
11 prevention of fraud. For example, the
12 Department could create a centralized database
13 or watch list of students that have been
14 identified as potentially engaging in student
15 identify fraud and suggest particular
16 safeguards or actions by the institutions prior
17 to certifying or releasing loan funds.

18 We also support the OIG's
19 recommendation that the Department should
20 immediately deploy the National Student Loan
21 Data System to provide institutions with
22 real-time data through flags regarding data

1 elements such as common student addresses,
2 student attendance patterns, and loan activity
3 on the institutional student information
4 record data to assist institutions in the
5 detection and prevention of fraud.

6 The Department in the October 20,
7 2011 Dear Colleague letter stated that
8 institutions have the authority to make more
9 frequent disbursements of Title IV funds so
10 that not all the payment period's award is
11 disbursed at the beginning of the period.

12 We agree that spreading the
13 disbursements would delay the creating and
14 release of a credit balance, and discourage
15 fraud ring participants.

16 We urge the Department to provide
17 additional guidance to assist institutions in
18 developing new policies for distance education
19 students, and would welcome the opportunity to
20 work collaboratively with you on this important
21 issue.

22 The second set of recommendations

1 focus on those issues that may require
2 statutory or regulatory change. We encourage
3 the Department to work with Congress to amend
4 the Higher Education Act to exclude room and
5 board from the cost of attendance calculation
6 and limit student borrowing to direct
7 educational cost for online students.

8 As our institution provides one of
9 the lowest-cost options for earning an online
10 degree resulting in credit balance, we are also
11 attractive to those who are intent on
12 fraudulently accessing financial aid funds.

13 Our online student population is
14 predominantly independent adults working full
15 time, and allowing them to borrow for room and
16 board may not be in their best interest.

17 We believe limiting the cost of
18 attendance is a commonsense approach to
19 addressing this issue, and will likely decrease
20 the amount of debt incurred by online students
21 and reduce funds available as a credit balance
22 or refund to those individuals who want to

1 defraud the government.

2 While the OIG recommends that
3 institutions serve as the entity collecting and
4 retaining the IP addresses, we understand that
5 institutions would carry out those duties at
6 the direction of the Department as manager of
7 the federal Direct Loan Program.

8 In other words, the institution
9 would simply carry out an administrative task
10 for the Department. We urge the Department to
11 ensure that any new regulations protect the
12 institution from liability for carrying out
13 these IP data collection tasks.

14 We encourage the Department to
15 develop through negotiated rulemaking
16 regulations that provide explicit guidance and
17 flexibility to institutions to take necessary
18 steps if they suspect a student is engaging in
19 student identity fraud.

20 These steps may include delaying
21 release of stipend funds and/or credit balances
22 beyond 14 days while investigating suspicious

1 situations, and/or while requiring and
2 weighting documentation providing the
3 student's identity as deemed appropriate by the
4 institution.

5 Holding institutions responsible
6 only for taking action on what they know and
7 when they know it, providing assurance that
8 institutions acting in good faith or having
9 certain safeguards in place will not be blamed
10 for fraudulent or criminal behavior of
11 students, providing that institutions who have
12 taken the appropriate steps to prevent fraud
13 are not penalized by those fraudulent students
14 who do succeed in enrolling and who ultimately
15 drop out by excluding these students from the
16 institution's cohort default rate and gainful
17 employment measures such as repayment rate and
18 debt-to-income ratios, establish clear
19 guidelines for what an institution should do in
20 cases whereby fraud cannot be proven by the
21 institution, but behaviors indicate that it is
22 likely, for example, hold loans, return loan

1 funds, hold stipends, require notarized
2 identity documents, and report to the OIG.

3 In closing, we agree that
4 institutions are the first line of defense in
5 combating fraud, but believe that a collective
6 and collaborative approach with the OIG, the
7 Department, and the institutions is needed to
8 share important information, identify tools,
9 and develop guidance to assist institutions in
10 detecting and preventing fraudulent activity.

11 Thank you very much for this
12 opportunity this morning.

13 ASST. SEC. OCHOA: Our next speaker
14 is Joan Zanders.

15 MS. ZANDERS: Good morning. I am
16 Joan Zanders. I'm just beginning my 26th year
17 as a director of financial aid, and currently
18 serve as the Director of Financial Aid and
19 Student Support Services at Northern Virginia
20 Community College.

21 We are a school of six full
22 campuses, many sites, and over 78,000 students

1 in Northern Virginia. Our students come from
2 180 countries. We are in close proximity to
3 Washington, DC and we really are a microcosm of
4 the world.

5 About three weeks ago, I had the
6 opportunity to watch 7,700 students graduate
7 from NoVa. We are educating Northern
8 Virginia. Community colleges are completing
9 degrees.

10 What I see generally are the problem
11 areas, and that's what I'm here to address this
12 morning. I really needed that graduation to
13 see the other side of it.

14 I'm largely speaking from my own
15 experiences this morning, not necessarily for
16 my college, but from things that I have seen,
17 especially in the last few years.

18 I am a true believer in higher
19 education as an equalizer, but I also know full
20 well that we must be good fiduciaries of the
21 public trust and tax dollars, or we will likely
22 lose public support for these programs and

1 risk the futures of many of our nation's
2 children and grandchildren. I am speaking for
3 our future.

4 It has to be about access and
5 accountability. We must have both, not just
6 for the colleges, but for the students. And I
7 think to some extent, we have gone so far on the
8 side of access that we have forgotten a little
9 bit about the accountability side.

10 Since the Federal Register did give
11 us the leeway to address additional issues, I
12 am going to use that opportunity. I will start
13 with the fraud and abuse, however. But I want
14 to mention that fraud and abuse come in many
15 disguises. It's not just all about distance
16 education.

17 The first batch of ISIRs I pulled in
18 this year at NoVA included over 300 independent
19 students with nothing but zeros on the ISIRs.
20 Over 100 dependent files were pulled in with all
21 zeros for both the student and the parents.

22 Of these, less than ten indicated

1 any means-tested benefits. I'm not sure how
2 one lives in Northern Virginia on nothing, but,
3 none of these were selected for verification by
4 the Department of Education.

5 Of those who were independent, and
6 these were independent for a variety of
7 reasons, we found one student who was 19 years
8 old, not married, and claiming six dependents
9 with no income. We had another one who was
10 claiming dependents -- or many who were
11 claiming dependents other than children or
12 spouse without any income, emancipated minors
13 in states with no emancipation rights, to many,
14 many homeless students.

15 I have a colleague who said she
16 tracked homeless students for a year, and of the
17 300 who claimed homelessness, when all was said
18 and done, five of them were actually qualified
19 to be homeless. Because that question makes a
20 student independent, it changes everything.
21 It changes the EFC completely.

22 Some of these I know are mistakes,

1 but are some attempts to defraud? We don't
2 know.

3 More and more people seem to be
4 being paid under the table, not reporting taxes
5 at all. And since we're using current year, I
6 also wonder how many students have just not
7 filed their taxes yet, they're putting in all
8 zeroes, they're not flagged for verification,
9 and nothing ever comes of a change in those
10 figures. I don't know why these files are not
11 of more concern.

12 Item number two, each year, largely
13 because of where we are in the country, we
14 receive hundreds and hundreds of files where
15 students do not meet the citizenship match.

16 In most instances, these students
17 are going to the social security administration
18 to update their citizenship status, which I was
19 told would happen within a few days, but which
20 seems to be taking months.

21 Why cannot the Department of
22 Homeland Security share information in a timely

1 fashion with the Social Security
2 Administration? We are asked as financial aid
3 directors to view citizenship documents and
4 determine aid eligibility when we know that
5 there are websites that allow creation of
6 citizenship documents.

7 How can we, as lay people, possibly
8 know that we have a valid document? I am a huge
9 vocal advocate for the DREAM Act, so please
10 don't take this the wrong way. I truly believe
11 in the DREAM Act.

12 But that's not optional at this
13 point, because Congress can't make a decision
14 on it. But why must financial aid
15 administrators determine the validity of
16 citizenship documents when we, as a country,
17 have the means to do that if departments would
18 communicate with one another in a timely
19 fashion?

20 Online classes are the likely
21 targets for scammers, since students have never
22 had to appear on campus in many instances.

1 But contrary to that premise, the
2 only fraud ring we have found thus far involved
3 on-campus students who were otherwise
4 dependent filing as recently married with
5 spouses who didn't make enough to file taxes,
6 thus making the student independent and much
7 more eligible for grant aid.

8 None of these students were
9 selected for verification, and were found due
10 to red flags coming from communications with
11 the students.

12 I actually had to push the OIG to
13 investigate further because on initial view, it
14 appeared there wasn't enough money at risk to
15 continue the investigation.

16 When all was said and done, two
17 colleges were involved and a ring was
18 established, but it was very, very difficult to
19 get the OIG to pursue it. I'm now on a
20 first-name basis with the OIG.

21 The formula continues to be
22 streamlined in an attempt to simplify the

1 process for students and families. I realize
2 how very difficult it is to verify the value of
3 assets if a family chooses not to be forthcoming
4 with the information.

5 For some reason, one of my staff
6 members recently had a reason to ask further
7 questions of a parent. Listed on this file
8 were \$30,000 in assets. When all was said and
9 done, we found two beach houses of over \$1.5
10 million value each.

11 At the same time, in years past,
12 because of the farm crisis, farms were
13 eliminated, family farms were eliminated as an
14 asset in the formula. Then, because family
15 farms were eliminated, family businesses were
16 eliminated, or small businesses were
17 eliminated.

18 I come from an area where farms are
19 selling for about \$10,000 an acre or more, but
20 the formula hasn't changed. I'm sorry, but
21 these are not normally needy people.

22 I've had farmers ask me what their

1 AGI could be to get a Pell Grant. Though I
2 couldn't and wouldn't provide a figure due to
3 the many variables the farmer needed to know,
4 indicating that he can make his AGI say anything
5 it needed to say to get a Pell Grant, and all
6 they have to do is buy seed early, buy
7 fertilizer early, buy machinery early.

8 And I'm not picking on farmers, but
9 what happens when the AGI is manipulated and
10 assets are not there, then the burden falls on
11 individuals with W-2 income. They pick up the
12 balance.

13 I am told we might get to a FAFSA
14 that would fit on a postcard. That would be
15 simple, but would it be fair? If we start going
16 down that road, those with only W-2 income again
17 will be the ones who are carrying the load for
18 everyone.

19 We seem to be streamlining
20 ourselves right into a major Pell Grant deficit
21 with a formula that has little to do with
22 reality. If we insist on simplifying to the

1 point that we can't really ensure that needy
2 students are receiving the funds, why not take
3 all the millions of dollars that we are using
4 to determine who gets the limited dollars and
5 provide at least the first two years of
6 postsecondary education for everyone? I think
7 the money would be better spent.

8 As I mentioned earlier, we're a
9 large community college. In the past two
10 years, we've seen a huge increase in the number
11 of students with loan debt in excess of \$45,000.

12 Often these students are coming
13 back to us with bachelor's degrees, master's
14 degrees, doctoral degrees, taking minimal
15 credits in a new program, and borrowing the
16 maximum amount in loans.

17 Some are legitimate programs. We
18 have nursing programs and oftentimes have
19 advanced degree programs coming back to take
20 those programs. But some of these students
21 have been to five, six, seven different
22 postsecondary institutions.

1 I have seen loan volumes of over
2 \$200,000 on more than one occasion. Most of
3 these are not flagged by the Department,
4 because there is undergraduate excess
5 available to the student.

6 We are running reports on aggregate
7 loan volumes to find these students and then
8 checking NSLDS. Most have much unpaid
9 interest in collection costs.

10 I can think of three particular
11 files just as examples. A husband and wife, he
12 was a master's, she was a doctorate, with a
13 combined loan total of about \$350,000, and
14 income of about \$150,000. And they're coming
15 back to us, taking minimum credits, and
16 borrowing the maximum.

17 A mother with an income range of
18 \$6900 to \$11,000 on two different years,
19 totally maxed out on her own student loans, and
20 has thus far borrowed PLUS Loans for her
21 children to the tune of over \$250,000. I think
22 we know who's going to pay that money back.

1 A colleague of mine reported a
2 potential new student to his college who was on
3 her fourth college in two years, and who had
4 already borrowed over \$22,000 in student loans.
5 She happened to also be getting a senior citizen
6 waiver due to the fact that she was now 91 years
7 old.

8 We can't discriminate on the basis
9 of age. We know that. But we're hearing more
10 and more of what we are now terming granny
11 scams. And since loans for students who die
12 are forgiven, we can justly assume who will be
13 paying these loans back.

14 I'm not sure how we address this
15 program, but it is becoming a big problem. I
16 feel somebody is going to set up shop in a
17 nursing home.

18 Students are now able to borrow at
19 two different schools simultaneously if the
20 loan periods don't overlap. No notice is sent
21 to the schools until the loan total for the year
22 is exceeded.

1 Would it be possible to provide MRRs
2 for loans to prevent loan over-awards before
3 they happen, or an ICR flag on a subsequent
4 transaction that indicates loans at more than
5 one school? We have to literally go into COD
6 to figure these things out.

7 On the campus-based issue, there is
8 currently no provision included in regulation
9 that allows a college to deny a Perkins Loan for
10 other than unwillingness to repay. I recently
11 had a student with over \$90,000 in loans
12 absolutely insisting that he could get a
13 Perkins Loan and I really had no right to deny
14 it.

15 I checked with the Department,
16 there was nothing there, unlike sub and un-sub
17 loans that we do have a right to deny on a
18 case-by-case basis. That doesn't help our
19 default rates.

20 Currently, there's no requirement
21 for colleges to collect other college
22 transcripts from students who move from college

1 to college. I think that could help some of the
2 balance problem, if we were required to have
3 transcripts.

4 I know that would be burdensome for
5 many schools, and in some instances, it's
6 considered to be a hindrance for students to
7 return to college. But we're seeing enough
8 bounce that something has to change, and we're
9 paying for credits over and over again that have
10 already been completed because students owe
11 bills at previous schools.

12 We've requested transcripts
13 recently from a student who had been to five
14 different colleges. She couldn't get four of
15 the five because she owed four of the five
16 money.

17 Some students just really need a
18 chance to start over, but the question is, how
19 many times? If there are any credits that
20 would transfer towards the current degree, it
21 would be in the student's best interest to bring
22 in these credits, thus saving the student

1 and/or taxpayer additional funds, and moving
2 the student closer to degree completion.

3 We've had students who really are
4 bouncing from school to school and having
5 nothing completed. We don't really want to be
6 next in that process.

7 Two additional issues truly need
8 the attention of the Department of Education.
9 The first is a return to Title IV, as was
10 mentioned by Megan McClean. It was not
11 negotiated to satisfaction two years ago, and
12 the current regulation is unfair to students
13 and nonsensical when different real scenarios
14 are considered.

15 Example 1, two students enrolled in
16 the same exact classes, but due to timing, if
17 the student drops the 16-week class for the
18 semester the week before the eight weeks is over
19 and has two remaining eight-week classes, the
20 student owes nothing back.

21 If he tries to stay in the course two
22 additional weeks, withdraws in the ninth week,

1 completes the first two classes successfully,
2 goes two weeks longer than his brother, he's
3 going to owe money back.

4 A student enrolls in three 16-week
5 classes and one weekend class. During the
6 weekend class, which is held during the third
7 week of the term, he drops his three 16-week
8 classes, since he's failing them. Since he was
9 still in the weekend class, he's not subject to
10 R2T4.

11 He finishes his weekend class,
12 possibly even with an F, and owes no money back,
13 whereas the student who may have withdrawn
14 after that period would owe all kinds of money
15 back.

16 This is the one that borrows me the
17 most. A student registers for three five-week
18 modules, especially in the summer time, three
19 credits in each module. She declines her loan,
20 but receives a Pell Grant at three-quarter
21 time.

22 She successfully completes one

1 module. Between modules one and two, she
2 learns her mother has a health problem and
3 decides it best to drop modules two and three.
4 Because she never started two and three, the
5 school must adjust her Pell Grant to the less
6 than half-time status.

7 On top of that, since she dropped
8 the two later-starting classes while not
9 attending another class, the school is required
10 to complete R2T4 for her.

11 She will owe back part of the
12 less-than-half-time Pell even though the
13 amount she received was exactly what she would
14 have received if she had registered for only
15 three credits to start with. Totally unfair to
16 the student.

17 This formula needs major work, and
18 I'm not going to go into the details of this.
19 I'm going to send this to the Department.

20 But I would like us to look at a
21 totally different formula. Let's forget R2T4
22 and focus on what the student should receive in

1 the next term.

2 I agree there have to be
3 consequences. But why not look at minimizing
4 the amount of availability for aid in the coming
5 term so that the student doesn't have an
6 outstanding bill?

7 Number one, it's very difficult for
8 the student to repay that money and
9 consequently then return to college, so they're
10 sitting there with a debt on their account.

11 If instead, that student who fails
12 to complete what they started were restricted
13 to a lesser enrollment status, we would
14 possibly encourage success.

15 Let's say a student finishes three
16 out of twelve credits. Next term, they can be
17 no more than half-time status, whatever the
18 status is, plus a status. If they finish
19 nothing, they can enroll for less than
20 half-time status, no loans, no anything, except
21 for the Pell Grant.

22 If they can prove success at that

1 level, then they would increase their aid in
2 future terms. I'll send the details of that to
3 the Department.

4 I know this would be cumbersome at
5 first, but I think it can be done through NSLDS
6 and reporting the student has changed schools.
7 Transcripts would be required to show exactly
8 what the student was eligible to receive in the
9 coming term.

10 Changing programs would not have an
11 impact, student is still required to complete
12 at a given level -- at a reduced level in order
13 to receive Pell Grant in the future or other
14 types of aid.

15 The last issue of concern is the
16 recently-voiced limitation on paying for book
17 charges with Title IV aid when charges from a
18 non-college-owned bookstore are applied to the
19 student's account. I think the vast majority
20 of colleges now have non-college-owned
21 bookstores, and this issue really needs to be
22 addressed.

1 If community colleges were forced
2 to release money to students for books prior to
3 census date, with the churn that we have, we
4 would lose thousands of dollars from that early
5 release aid.

6 If we didn't collect the money from
7 the student, the only way to cover it would be
8 with increased tuition for our students, which
9 is not a good solution at all.

10 What I frequently refer to as the
11 theory of over-correction is alive and well
12 across the country, and not just in financial
13 aid.

14 My fear in bringing forward these
15 issues and possible solutions is that we will,
16 once again, overcorrect, causing more problems
17 instead of solutions, and hurting students.

18 I firmly believe that we must find
19 a balance between access and accountability,
20 and have an expectation that access will yield
21 results. If we do so, committing fraud and
22 abuse will be much more difficult.

1 And I am more than willing to work
2 with the Department on any of these issues. I
3 would invite the Department and Congress to
4 come spend a week in our office. I would love
5 to have you experience the issues that we see
6 on a regular basis, and maybe it would help
7 formulate better policy.

8 Thank you. I greatly appreciate
9 working with the Department of Education.

10 ASST. SEC. OCHOA: The next speaker
11 is Rich Williams.

12 MR. WILLIAMS: Hello, everyone.
13 Good morning. My name is Rich Williams. I'm
14 the higher education advocate with the United
15 States Public Interest Research Group, a
16 national public interest advocacy and student
17 advocacy organization.

18 Thank you very much for the
19 opportunity to make public comments. I'd like
20 to spend my time today addressing an issue that
21 has been -- we've been hearing growing
22 complaints about from our student membership

1 around the rapidly growing market of campus
2 debit cards, including debit cards designed for
3 the sole purpose of disbursement of federal
4 student aid.

5 While we believe a well-structured
6 debit card program can provide benefits to
7 students, many current programs provide little
8 to no choice for students, while high fees on
9 grant and loan money leave students deeper in
10 debt.

11 Wall Street is headed back to
12 campus, continuing a long track record of
13 targeting college students to push bank
14 products that leave them deeper in debt.

15 People would be shocked to learn
16 that some of the biggest banks in this country
17 are skimming potentially hundreds of millions
18 of dollars in financial aid dollars meant for
19 students, millions of students are impacted,
20 and they are the most neediest students in the
21 country.

22 Banks and other financial firms are

1 taking advantage of a variety of opportunities
2 to form partnerships with colleges and
3 universities to produce campus student ID cards
4 and offer or receive student aid disbursements
5 on debit cards or pre-paid cards.

6 In addition to on campus services,
7 such student ID functions offered on the cards,
8 some cards offer traditional debit card
9 services linked to bank accounts. Others
10 provide additional, reloadable pre-paid card
11 functions. Financially, disbursement is the
12 biggest.

13 While schools are obtaining
14 revenues and reducing costs for outsourcing
15 certain services, the relationships between
16 schools and financial institutions have raised
17 certain questions, because students end up
18 bearing some of the costs directly, including
19 per swipe fees for using your debit card as a
20 debit card of fifty cents, a pay to pay fee;
21 inactivity fees of \$10 or more starting six
22 months of inactivity, not even a full academic

1 year; overdraft fees of up to \$38; and plenty
2 more.

3 Other issues include the effect of
4 aggressive marketing strategies by partnering
5 banks on student choice and weak consumer
6 protections on certain cards that hold student
7 aid funds.

8 Above all, these deals provide an
9 unprecedented opportunity to market and bundle
10 financial products with virtually no
11 competition, including credit cards and
12 private student loans.

13 We recently released a report, "The
14 Campus Debit Card Trap," which details many of
15 the comments in greater detail. Some of the
16 key findings that we report, millions of
17 students are affected. Almost 900 of the 7300
18 campuses participating in the federal student
19 aid program now have banking partnerships.

20 Higher One, the biggest financial
21 firm, has partnerships with 520 campuses,
22 enrolling over 4 million students. Currently

1 over 12 percent or one in eight of all federal
2 aid recipients national disburse their aid
3 money onto Higher One bank accounts. Wells
4 Fargo, the biggest bank in the market, partners
5 with 43 campuses that enroll over 2 million
6 students.

7 And there's big money at stake.
8 Higher One makes 80 percent of its revenues by
9 siphoning fees from student debit cards.
10 These fees include ATM and other transaction
11 fees, overdraft fees, and interchange fees that
12 are imposed on merchants who accept the cards.

13 Most of the students who are
14 impacted are the neediest. Students most
15 reliant on financial aid come from low and
16 moderate income backgrounds.

17 The service appears to be endorsed
18 by the colleges. Huntington Bank paid \$25
19 million to co-brand and link their checking
20 accounts with Ohio State University student
21 IDs. Other schools receive substantial
22 payouts, revenue sharing deals, and large

1 reductions in administrative costs.

2 Many bank contracts require aid
3 recipients to visit their website before they
4 choose how to receive their aid either into
5 existing accounts, onto a check, or a
6 disbursement card. They co-brand with the
7 college, which implies an endorsement, even if
8 it's not the case.

9 These relationships create at least
10 the appearance of a conflict of interest.
11 Banks count on students letting their guards
12 down as consumers when the school logo is
13 attached.

14 Based on our evaluation of the
15 issues surrounding the growing campus card
16 marketplace, and other potential impacts to
17 students, we have created a framework for
18 discussion on best practices that offer
19 specific recommendations to the Department of
20 Education to improve safeguards for students.

21 A few of the specific
22 recommendations include, the Department should

1 do more to collect information about the
2 marketplace, which is currently opaque,
3 including thorough annual compliance audit
4 surveys already required of third-party
5 servicers.

6 Additionally, the Department
7 should enforce current regulations requiring
8 institutions to provide all contracts with
9 third-party services, including modified or
10 renewed contracts. These contracts should
11 always be publicly available in an easily
12 accessible database.

13 I might add, many of these contracts
14 are being signed for a decade or longer time
15 periods, while there's no restrictions on how
16 quickly banks can change and modify the bank
17 accounts, including the fees and terms and
18 conditions that the students have on their
19 accounts.

20 Three, the Department should
21 enforce current rules that ban any credit
22 function, such as overdrafts, on bank accounts

1 where a school or an agent of the school opens
2 the account on behalf of the student,
3 establishes a process the student must follow
4 to open a bank account, or similarly assists the
5 student or parent in opening a bank account.

6 Four, we include a variety of
7 recommendations about updating the
8 Department's current regulations in light of
9 new bank tactics concerning the disbursement of
10 financial aid.

11 A few of them fall back ultimately
12 to the principle that the Department should
13 create rules that ensure students have a clear
14 and unbiased choice about where to bank and
15 which financial aid disbursement method they
16 wish to use.

17 Certain tactics currently mislead
18 students, including mailers from the bank to
19 the student before they even set on campus,
20 potentially even including a debit card which
21 they are instructed to activate; setting up
22 tables on campus during orientation and other

1 events to market their products; co-branding
2 with the University logo; misleading language
3 about the purpose of debit cards, including
4 phrases like, you must activate your card now
5 in order to receive aid; and even giving gifts
6 to students to open checking accounts.

7 These may sound familiar, because
8 they are mostly heavily restricted or banned
9 practices in relation to credit cards.

10 However, with debit cards, totally legal.

11 Additionally, the Department
12 should ban all fees on financial aid dollars,
13 whether disbursed to a pre-paid card or a bank
14 account in partnership with the school.

15 Financial aid dollars are taxpayer money
16 designed to pay for educational expenses, not
17 an education in high bank fees.

18 The Department should require all
19 banks and financial firms to accept or disburse
20 federal student aid to make their affinity
21 agreements with schools public, just like with
22 credit card agreements. The Department should

1 ban co-branding of materials including debit
2 cards, websites and mailers, unless a student
3 opts in to the service.

4 Regulators should require the
5 campus provide an adequate number of regularly
6 replenished on-campus ATMs. I think this is
7 where we're seeing many of the problems.

8 Currently, banks are able to meet
9 the minimum letter of the law by having one ATM
10 on campus. As you can imagine, when financial
11 aid is disbursed, there's a run onto those ATMs,
12 and they break down or run out of money within
13 the first day.

14 And I report, we have a picture of
15 a line 50 students long on the day of
16 disbursement at one community college. That
17 ATM broke down within two hours and students
18 were forced to use ATMs -- foreign ATMs and
19 incur not only up to a \$3 charge from their bank
20 provider, but an additional charge from the
21 owner of the ATM.

22 ATMs should also be made available

1 24 hours a day. Currently, many of them are
2 placed in buildings that are locked up, leaving
3 students no choice but to use foreign ATMs,
4 again incurring the fee.

5 The Department should create rules
6 -- or the Department should create additional
7 guidance to help schools better understand
8 federal aid requirements in the ever-changing
9 bank landscape.

10 The Department should also advocate
11 that schools negotiate out fees from their
12 contracts, and possibly reward those who do.

13 The Department should more
14 aggressively pursue and collect complaints
15 related to debit cards and financial aid
16 disbursement, investigate potential
17 violation, and use their current authority to
18 find banks and financial firms participating in
19 third-party servicing contracts that are
20 violating those rules.

21 And finally, the Department should
22 act in strong partnership with the Consumer

1 Financial Protection Bureau and attorney
2 generals around the country to enforce rules
3 and create new ones that protect students.

4 We would like to submit a full copy
5 of our "Campus Debit Card Trap Report" as our
6 written comments, which has additional details
7 about our comments and additional
8 recommendations.

9 We look forward strongly to working
10 with the Department of Education and colleges
11 moving forward to protect students and their
12 financial aid from being whittled away by bank
13 fees.

14 Thank you.

15 ASST. SEC. OCHOA: Thank you.

16 Our next speaker is Lauren
17 Saunders.

18 MS. SAUNDERS: Good morning. I am
19 Lauren Saunders, managing attorney with the
20 National Consumer Law Center. We advocate on
21 behalf of low-income consumers and seek to
22 protect them in their financial lives.

1 Thank you for this opportunity to
2 testify today on behalf of our low-income
3 clients. We support efforts to reduce fraud
4 and increase efficiency in disbursement of
5 higher education funds. But we think the
6 Department needs to do more to ensure that
7 students have the choice of where to bank, and
8 that they are protected from unnecessary fees,
9 risks, and inconveniences when the school
10 selects their account.

11 The education that a student
12 receives in college is more than what takes
13 place in the classroom. Encouraging students
14 to make wise financial choices and to learn how
15 to manage a financial account is essential.

16 Schools should not skew the choice
17 that a student makes, or worse, make bad choices
18 for them by choosing an institution that
19 provides the most revenue to the school.

20 The school account can provide
21 convenience and other benefits to students.
22 But some schools offer pre-paid cards and not

1 full-fledged bank accounts, and other offer
2 accounts like Higher One that purport to be
3 checking accounts, but that have many of the
4 limitations of pre-paid cards, such as numerous
5 fees, a lack of branches to make deposits, and
6 small ATM networks.

7 Even when schools choose a
8 traditional bank account, ATM networks vary,
9 and overdraft fees in particular have been a
10 problem for many students at some banks. A
11 recent study found that 17 percent of consumers
12 ages 18 to 24 incurred overdraft fees, a rate
13 nearly twice as high as that of older consumers.

14 Not all banks are the same. Citi
15 and HSBC do not permit debit card and ATM
16 transactions to trigger overdraft fees, nor
17 does Bank of America on debit cards. Other
18 banks permit, and sometimes encourage,
19 overdraft fees.

20 Wells Fargo and US Bank, two banks
21 that have among the largest numbers of school
22 contracts, permit overdraft fees on debit cards

1 and ATM transactions. Those two banks are also
2 among a small number of banks that offer 300
3 percent short-term small loans, account
4 advance payday loans that can trap consumers in
5 a cycle of debt.

6 Department rules prohibit turning a
7 school-selected card into a credit instrument,
8 yet banks that solicit consumers to opt in to
9 overdraft protection on their debit card skirt
10 that rule.

11 Direct deposit to an account of the
12 student's own choosing should always be the
13 first choice, one that is actively encouraged.
14 Many students already have bank accounts when
15 they start school, especially the large number
16 of older students who have already been
17 managing their financial affairs.

18 Even when opening a new account, a
19 student may have a variety of reasons for
20 preferring an account other than the one that
21 has the contract with the school. The student
22 might prefer a bank that has a broader free ATM

1 network or branches in the student's home city,
2 has lower fees, does not encourage overdraft
3 fees or overspending, has more sophisticated
4 mobile apps or other financial management
5 tools, or is a smaller, community-based
6 institution with more personal service.

7 The Department already has rules
8 that require students to affirmatively consent
9 to an account that the school selects for them.
10 The Electronic Funds Transfer Act has similar
11 rules that restrict mandated accounts and
12 unsolicited debit cards. Unfortunately,
13 these rules seem to be honored more in the
14 breach.

15 The Department should revise its
16 model forms and find multiple early, easy, and
17 convenient steps in the financial aid
18 application and agreement process for the
19 student to indicate their choice of direct
20 deposit, or, if they prefer, a paper check.

21 Schools should not wait until the
22 funds are ready to disburse, resulting in

1 delays if the student selects an option other
2 than the school-selected account.

3 If the student does choose an
4 account selected by the school, the school has
5 a high obligation to ensure that the account is
6 appropriate for students and does not result in
7 unnecessary fees. Many students will rely on
8 their school's endorsement, and these accounts
9 may stay with students for a long time, for many
10 years to come. A report from Consumers Union
11 just this week shows how difficult it is to
12 change banks.

13 The Department should ban
14 revenue-sharing in order to ensure that schools
15 do not have a conflict of interest when they
16 select a contract. The Department should also
17 set standards for school-selected or endorsed
18 accounts.

19 The Department of Labor, for
20 example, put forth guidance on the fees
21 appropriate on pre-paid cards used by states to
22 pay unemployment benefits.

1 Standards for these accounts can
2 assist schools in negotiating the best deals
3 for their students. Department and schools
4 together should ensure that students are
5 clearly informed that they can decline an
6 account and can transfer any money to their own
7 account easily and without charge.

8 They should ensure that any account
9 arranged by the school has sufficient free ATM
10 access, does not carry any overdraft fees or
11 credit features, provides ample free access to
12 account information, does not carry
13 unnecessary or excessive fees, complies fully
14 with Regulation E, and carries deposit
15 insurance, and has terms that are clearly and
16 conspicuously disclosed to the student before
17 the student decides to accept the account.

18 I've described these issues at
19 greater length in the written testimony that we
20 have already submitted. Thank you for this
21 opportunity to testify.

22 ASST. SEC. OCHOA: Thank you.

1 So, next speaker is Wes Huffman.

2 MR. HUFFMAN: Good morning. My
3 name is Wes Huffman, and I'm the Legislative
4 Director for the Coalition of Higher Education
5 Assistance Organizations, or COHEAO. And I am
6 here to offer this testimony on behalf of our
7 board of directors and members.

8 I would like to present the
9 following comments on the upcoming negotiated
10 rulemaking on several important issues, but
11 most particularly, the campus-based programs
12 and Perkins Loans. That's kind of the main
13 issue for COHEAO.

14 COHEAO is a coalition comprised of
15 colleges and universities and commercial
16 organizations with a shared interest in
17 improving access to postsecondary education.

18 Specifically, COHEAO members have
19 expertise in the Perkins Loan Program and other
20 student financial assistance programs. They
21 are the ones who administer the Perkins Loan
22 Program, working with students over a number of

1 years from the time a Perkins Loan is first
2 disbursed until it is fully repaid.

3 In the vast majority of cases, the
4 loans are fully repaid, showing a sign of
5 success with the program, with financing going
6 to students for generation after generation.

7 As many of you all know, Perkins
8 Loans are offered at low interest with
9 well-crafted cancellation benefits, and more
10 importantly, or perhaps most importantly,
11 Perkins Loans also feature the human touch of
12 campus-based services, which allows on-campus
13 administrators to provide Perkins borrowers
14 with one-on-one service to assist them in the
15 management of their student debts.

16 Campus-based servicing is
17 especially important today, at a time when many
18 students are graduating with thousands of
19 dollars of student debt, and the government is
20 trying to increase counseling and education to
21 help manage that debt.

22 Perkins Loan administrators are

1 already providing this counseling in many
2 fashions, and are quite focused on expanding
3 the provision of financial education for their
4 students, and in some cases, former students,
5 as they are repaying the loans.

6 COHEAO commends the Department for
7 its efforts in streamlining regulations and
8 appreciates the focus on campus-based
9 programs. We are extremely hopeful the
10 negotiated rulemaking effort will produce
11 regulations which allow the programs to operate
12 more smoothly for students and schools, while
13 still safeguarding taxpayer funds.

14 In particular, COHEAO would
15 encourage the Department to create a regulatory
16 structure which allows campuses to engage
17 students efficiently and effectively using
18 modern communication tools and methods, which
19 students prefer and expect from their college
20 or university.

21 We are also hopeful the Department
22 will give strong consideration to the cost

1 benefits for colleges and universities of going
2 paperless, and the benefits afforded to
3 students, such as easily accessible but secure
4 personalized documents and information as it
5 continues in these streamlining efforts.

6 As the Department knows, many
7 schools turn to third-party servicers to assist
8 them with the administration of the Perkins
9 Loan Program.

10 COHEAO fully supports the efforts
11 to maintain program integrity in the Title IV
12 programs, in particular, Perkins Loans, but we
13 would also support any efforts from the
14 Department to identify and eliminate areas of
15 excessive redundancy in the area of third-party
16 oversight.

17 In the discussion of the Perkins
18 Loan Program, we suggest that extra care be
19 taken to avoid adding administrative burden.
20 The Department deserves nothing but praise for
21 attempting to streamline regulations governing
22 the Title IV program, particularly

1 campus-based, but there is always concern about
2 unintended consequences.

3 Perkins Loans regulations have been
4 reviewed multiple times in recent years,
5 including significant regulatory changes as
6 part of negotiated rulemaking in 2007, 2009,
7 and 2012.

8 COHEAO members were honored to
9 participate in each of those negotiations
10 involving the Perkins Loan Program, and we are
11 hopeful the Department will again seek our
12 members during the review of the campus-based
13 programs.

14 Members of COHEAO have an expertise
15 on both the front end and back end aspects of
16 the Perkins Loan Program, which would serve the
17 negotiating committee quite well as it reviews
18 these programs, and we look forward to the
19 opportunity to submit nominations for
20 negotiations.

21 Thank you for the opportunity to
22 testify.

1 ASST. SEC. OCHOA: Thank you.
2 We're going to shortly take a break, but if
3 Daniel Toughey is here, then his testimony
4 would put us back on schedule.

5 So come on up.

6 MR. TOUGHEY: Thank you. Good
7 morning. My name is Dan Toughey, and I'm
8 President of TouchNet Information System.

9 And we'd like to thank the
10 Department of Education for reviewing an
11 important issue of the distribution of credit
12 balances, of Title IV funds, and as it relates
13 to technology currently available on the
14 market.

15 It's our hope that the
16 establishment of a committee will allow a
17 thorough examination of the distribution
18 processes and practices currently in place, in
19 light of the growing complaints by students
20 expressing their dissatisfaction of the
21 banking products being aimed at it today.

22 As background, TouchNet is a

1 leading provider of electronic payments and
2 electronic software for the higher education
3 industry for the past 20 years. We focus 100
4 percent of our energy and effort on colleges and
5 universities, and we have a large, installed
6 base of client institutions that collectively
7 represent about 6 million students.

8 During the past decade, TouchNet
9 has worked with many of our client institutions
10 to work on streamlining and automating the
11 student aid disbursement process. In that
12 time frame, we've observed a numerous number of
13 approaches and programs. We've acquired a
14 significant amount of knowledge on how to do the
15 job right.

16 Our current software offering
17 called TouchNet E-refunds enables colleges and
18 universities to electronically distribute
19 Title IV money using the ACH system, or more
20 commonly referred to as direct deposit.

21 Students are able to enroll online.
22 They're able to see and manage and get text

1 notifications of activity within their refund
2 in their student account. And most
3 importantly, they're able to receive their
4 funds electronically into their own bank
5 account.

6 This solution has literally saved
7 our client institutions millions and millions
8 of dollars of postage, checks, printing, and
9 handling the cost.

10 But more important than that,
11 folks, more important is what it has not done,
12 and it has not caused any student protests, any
13 lawsuits, or any negative press for our client
14 institutions.

15 The key to a direct deposit program
16 and the savings an institution can recognize is
17 directly related, naturally, to the number of
18 students that select the direct deposit option.

19 Many of our client institutions
20 have achieved success rates of around 50 to 60
21 percent or more without mandating electronic
22 disbursements, as currently provided for in the

1 FSA guidelines.

2 Several of our institutions have
3 mandated electronic disbursements, and have
4 achieved success rates of over 80 percent.
5 This is very similar to the success rates that
6 private employers and the Social Security
7 Administration receive with direct deposit
8 programs of payroll and government benefits,
9 respectively.

10 Folks, there is little doubt --
11 there is no doubt that direct deposit is the
12 low-cost, student-friendly approach to
13 delivering Title IV funds. The challenge,
14 however, is to increase the participation rate
15 to 100 percent so colleges and universities can
16 stop cutting checks and start cutting costs
17 better every day.

18 Now, as you're very aware, there's
19 a growing trend in the higher education
20 community to outsource financial aid
21 disbursement to third-party servicers
22 affiliated with banking entities.

1 The allure to institutions of not
2 having to deal with this difficult process of
3 disbursements of financial aid seems to
4 outweigh the downside risks of allowing
5 third-party banks and their banking partners to
6 have direct access to student borrowers.

7 Unfortunately, there's also a
8 growing number of students who are crying foul
9 because they've been taken advantage of by
10 these providers. Hardly a day goes by without
11 another news article, a new report, or website
12 postings complaining about unreasonable fees
13 and the heavy-handed process that banks are
14 using to sell their products.

15 Ladies and gentlemen, there is a
16 significant problem in the industry, and
17 something needs to be done about it now.

18 That being said, TouchNet is not
19 opposed to using debit cards as part of a
20 balanced approach to a financial aid
21 disbursement program. In fact, we most likely
22 will have one in a future offering.

1 However, students must be protected
2 from excessive charges and aggressive business
3 practices that are sometimes used to push bank
4 products and debit cards.

5 Because of this, the Department of
6 Education will have to take a more active role
7 in providing guidelines and a framework that
8 ensure a level of fairness and transparency
9 when providing bank products as part of a Title
10 IV funds disbursement process.

11 It is absolutely vital that the
12 student refund process and problems of today do
13 not become and do not emulate the student loan
14 problems and process of the past.

15 Therefore, today, we submit to the
16 Department of Education what we call the 4 for
17 4 E-Disbursements Framework as it applies to
18 bank products. As you can imagine, it has four
19 tenets.

20 The first one is, to restrict
21 third-party marketing to students. The
22 process of distributing financial aid is based

1 upon a relationship between the higher
2 education institution and the student. No
3 third-party servicer should be allowed to
4 market its products and services directly to
5 students without each student's individual
6 consent.

7 And we must restrict the
8 co-branding of these bank products and debit
9 cards with the institution's logos, which
10 implies an endorsement by the institution.

11 And further, we must prevent
12 third-party servicers from mailing or
13 distributing plastic cards to students without
14 their consent. We need to stop carpet-bombing
15 students with plastic. That was point number
16 one.

17 Point number two is, we need to
18 present unbiased enrollment options.
19 Students must be able to choose their
20 electronic disbursement options without undue
21 bias and pressure. Direct deposit and bank
22 products must be presented equally with a

1 balance of information that allows the student
2 to make a good decision.

3 Enrollment must be easy for both
4 options, available online for both options, and
5 able to be completed within just a few minutes.

6 In short, direct deposit cannot be
7 harder to enroll in than opening a new bank
8 account.

9 The third tenet is we need to
10 eliminate exclusivity for bank contracts.
11 Long-term exclusive contracts between
12 third-party service providers and institutions
13 are common today. However, such contracts are
14 not advantageous for students or the
15 institution.

16 New, lower-cost bank options always
17 become available over time, and institutions
18 need the flexibility to add or subtract such
19 products without contract restrictions with
20 their third-party service providers.

21 This will promote competition
22 between third-party service providers and

1 allow the institutions to choose the best
2 products for their students at any time.

3 And the fourth and the final tenet
4 of the framework would be, we must disclose all
5 fees up front. All fees for bank products
6 associated with the Title IV disbursement
7 process must be transparent and visible.

8 The fees should be highlighted in a
9 single table similar to the nutrition label
10 required by the FDA on food products. Such a
11 financial fee label would simplify the
12 information presented to students in a
13 transparent matter.

14 This will reduce the confusion,
15 make costs clearer, and of course, eliminate
16 hidden fees.

17 At the same time, TouchNet does not
18 believe that bank fees should be regulated by
19 the Department of Education, provided there's
20 some kind of framework or rules that are
21 established properly, as I just mentioned, the
22 competitive forces of the market will drive

1 costs to a reasonable level.

2 As the process goes forward, which
3 I certainly hope it does and needs to, I think
4 it's very important to understand that high
5 fees is only part of the problem. In fact, it's
6 the visible part of the problem.

7 But even more troublesome is the
8 enrollment process itself that is both overly
9 aggressive and deceptive at times.

10 Today, some third-party service
11 providers in effect are saying to students, we
12 have your money, come get it, but get it our way.

13 I truly believe that most schools do
14 not understand up front when they sign these
15 contracts what they are getting into, but then
16 find themselves locked into five-year
17 exclusive agreements and no way out.

18 In conclusion, the 4 for 4
19 E-Disbursements Framework provides a practical
20 and effective set of guidelines to ensure the
21 integrity of the financial aid disbursement
22 process. It should be seriously considered.

1 The advancement of electronic
2 payments, while a best practice, must be
3 administered with the needs of the student
4 borrower in mind. Aggressive and misleading
5 business practices must not be associated with
6 the disbursement of Title IV federal financial
7 aid.

8 As a model to reference in your
9 review, I would encourage you to go to the US
10 Treasury Department program called Go Direct.

11 Effective March 2013, less than on
12 year from now, all federal benefits, including
13 social security and veterans benefits, will be
14 disbursed and received electronically.

15 Although the Go Direct program is
16 not perfect -- in our opinion, nothing is -- it
17 does follow the basic tenets of the 4 for 4 E
18 Disbursement Framework I just talked about.

19 Once again, TouchNet would like to
20 thank the Department for their consideration of
21 this vital issue, and we wish the Department
22 much success addressing them in the coming

1 months.

2 Thank you.

3 ASST. SEC. OCHOA: Thank you, Mr.
4 Toughey. I apologize for mispronouncing your
5 name earlier.

6 We will take now a fifteen-minute
7 break.

8 (Whereupon, the proceedings went
9 off the record at 10:39 a.m. and resumed at
10 11:00 a.m.)

11 ASST. SEC. OCHOA: All right,
12 folks. We're going to reconvene. Our next
13 speaker is Eric Rodriguez.

14 MR. RODRIGUEZ: Good morning. My
15 name is Eric Rodriguez. I'm a certified fraud
16 examiner, and I'm also the manager of fraud
17 aversion department for Nelnet.

18 Since 1978, Nelnet's been one of the
19 leading education planning and education
20 financing companies in the United States, and
21 provides a comprehensive suite of products and
22 services to education-seeking families and

1 operational product services to institutions
2 that service them.

3 Simply put, the company helps
4 families prepare, plan, and pay for education.

5 Over the past decade, Nelnet has
6 grown from existing primarily as a financial
7 provider in the student loan industry to
8 offering a diverse set of products and services
9 for both schools and consumers.

10 This shift has helped Nelnet become
11 a premier organization, not only in education
12 finance, but also in education services as
13 well.

14 Nelnet is focused on providing
15 outstanding services to help students and
16 institutions that service them reach their
17 goals. The company offers a broad range of
18 financial services, technology-based
19 products, and tools to assist the
20 education-seeking family throughout the
21 learning life cycle.

22 Nelnet currently operates five

1 segments, asset generation and management,
2 student loan and guarantee services, tuition
3 payment processing and campus commerce,
4 enrollment services and list management, and
5 software and technical services.

6 We support more than 24 colleges and
7 universities in their goals to recruit and
8 retain students and help students and families
9 research, find, and apply to schools that match
10 and encourage their education and career goals.

11 We provide customer services for
12 nearly five million student loans today,
13 borrowers, and indirectly service an
14 additional 10 million borrowers on our hosted
15 system.

16 We provide services that allow 4800
17 private and faith-based K-12 schools and
18 approximately 650 colleges and universities to
19 easily evaluate, manage, and grant financial
20 aids and donations for their institution.

21 In addition to those schools, we
22 overcome affordability concerns with our

1 tuition payment plans and convenient online
2 payment options. We're helping more than
3 about 1.5 million families.

4 In the past year, Nelnet's loan
5 servicing payment processing segment increased
6 its number of borrowers to provide customer
7 service on behalf of the Department of
8 Education by about eight percent, which makes
9 it around 3 million new accounts there.

10 In total, by the end of last year,
11 we serviced more than \$76 billion of
12 Department-owned and Federal Family Education
13 Loan Programs, student loans for nearly 5
14 million borrowers.

15 With our goal to provide the best
16 service to our customers and consistently be
17 number-one ranked student loan servicer for the
18 Department of Education, we continue to make
19 business decisions that will bring
20 improvements to this area.

21 Our operations rely on stable,
22 secure processing, transmission, and storage

1 of confidential information within computer
2 systems and networks. Although we believe we
3 have robust change management and information
4 security procedures and controls, cyber
5 security system stability and the continued
6 development and enhancing of our training,
7 controls, audit procedures, processes, and
8 practices remain a priority.

9 Now, I bring nearly about 30 years
10 of experience in the fraud detection and
11 prevention in the credit card arena, debit
12 card, store of value, loans, and counterfeit.
13 I find fraud to be kind of a difficult beast to
14 tame. I mean, we have to be able to work
15 together to be able to reduce fraud.

16 It's pretty much devastating to the
17 consumers, especially to the borrowers
18 themselves, when fraud occurs and there's loss,
19 they have to clear the credit bureaus, they have
20 to deal with the schools, they have to deal with
21 the guarantors, all different types of segments
22 throughout there.

1 Now, identity theft affects over
2 about 11 million Americans in 2010. That's one
3 out of 20. That's a lot. That's a lot. I'm
4 elated to hear the Department of Education
5 Office of Inspector General has taken this
6 issue to heart, and taken important steps in
7 acquiring information to help mitigate these
8 risks. It's going to help mitigate these risks
9 to our student populations, to taxpayers, and
10 all the educational institutions.

11 I read the memorandum from the
12 Office of Inspector General entitled,
13 Investigative Program Advisory Report,
14 Distance Education Fraud Rings, and I do concur
15 with their findings. We do have big issues in
16 fraud, specifically, identity theft.

17 We need to take proactive steps in
18 mitigating the risks by adding preventative
19 measures, not just fight the fires as they come.

20 There are many steps that we can
21 take to institute and help reduce the number of
22 identity theft incidents and reduce the burden

1 of the OIG officers and the educational
2 institutions.

3 Let's start with distance learning
4 programs. Large percentage of these colleges
5 or universities that offer distance learning
6 programs are lower tuition rates, yet the
7 student, as you've heard from many who have
8 testified already, take the maximum amount.

9 So, I go out there, I go to a school,
10 my tuition's going to be \$2,500, I take out
11 \$10,000, so I'm going to walk away with \$7,500,
12 \$6,500, somewhere around there.

13 I believe that we should cut those
14 costs to be just the cost of the tuition and
15 books. You guys are familiar with the fraud
16 triangle from Donald Cressey. You have the
17 three parts there, you have the pressure, you
18 have the opportunity and the rationalization.

19 Take away one of those, you're going
20 to curtail the fraud there. So let's take away
21 that opportunity. Let's take away that \$7,500
22 that's there that they can take.

1 If I'm a fraud ringleader, and I'm
2 going to go onto a distance learning school and
3 see I'm only going to be allowed to get \$2,500,
4 the cost of tuition, fees, and books, I'm not
5 going to bother. It's not worth my time. So,
6 why even bother? Right there, you've solved
7 your problems with distance education.

8 Now, we look at that, and there's
9 other traditional types of identity theft as
10 well. There's the Student PLUS Loans. Here,
11 we have identity theft which occurs where the
12 parent is not signing these loans. You have
13 the uncle, the aunt, the brother, the sister,
14 and it's not until they graduate from school
15 that these loans go into repayment.

16 And when these loans go into
17 repayment, and we start to collect, the parent
18 says, I never signed this, and most of them are
19 electronic, of course. So there's another
20 issue there. Those loans are huge, the Parent
21 PLUS Loans. You can take out \$40,000, \$50,000.
22 Those burdens go to the taxpayers, then.

1 What can we do in these instances?
2 We need to have some form of validation.
3 Currently, today, I know we have the FAFSA
4 that's out there. We also do a run through
5 Social Security Administration.

6 In my experiences, looking at these
7 fraud cases, the actual FAFSA does have the
8 parent information, and the student loan
9 application does not.

10 So if we were able to work and maybe
11 bounce against these databases, we would be
12 able to probably curtail a lot of these frauds.
13 We would be able to see that the FAFSA had the
14 parent name and the actual loan application had
15 someone else's name in place there.

16 In addition, we should do some other
17 sorts of verification, maybe through voter
18 registration. I know not everyone is
19 registered, but it's going to help out a lot
20 there.

21 Other items we can look at to help
22 within these is when we provide these loans,

1 again, we should segment how we send out these
2 loans.

3 They should be -- you heard it a lot
4 from a lot of other people here, you should
5 actually send out what's needed for the
6 tuition, fees, and books, and stagger the rest
7 of those going forward.

8 Most of them do not want to wait a
9 long period of time to get that money. They're
10 going to want to go in, get the money, drop out
11 of school, take it. So if you take that
12 opportunity away from them there, they're
13 probably not going to continue.

14 Another item I looked at is with
15 identity theft, it's a very difficult crime to
16 prosecute. First of all, the statute of
17 limitations, many of the times, again, like I
18 said, they apply for the loans, it's not going
19 to be years until they graduate, and finally
20 until someone resolves the issue, it may be
21 five, six, seven, eight years, in that time the
22 statute of limitations are gone.

1 So OIG is burdened with trying to
2 investigate these, and not being able to
3 prosecute.

4 My solution that would be, would
5 they apply through the FAFSA systems, or they
6 apply through the government websites for the
7 loans, we should put out there a banner stating
8 that you're entering a government website or a
9 government computer system, and any
10 falsification could be prosecuted as far as
11 using an unauthorized computer system.

12 This process then would allow us to
13 prosecute regardless of those timeframes, and
14 it will also allow us to have the ability to go
15 after these fraud rings with less -- if you want
16 to say, less proof as far as seeing -- you know,
17 trying to prove that it's identity theft. We
18 actually can capture that they've signed on,
19 their IP address, so we can prove that in court,
20 then we can prosecute.

21 And again, most of these are going
22 to be higher dollar amounts from the student

1 PLUS Loans.

2 Other recommendations that I have
3 that I've seen is training, training of the
4 university financial aid offices, training of
5 the guarantors, training of the servicers.
6 Training is very important. We need to be able
7 to train our front lines to be able to recognize
8 fraud.

9 We need to be able to capture this
10 information. NSLDS is a perfect area. We
11 should have a fraud file in place there. We
12 don't, so, most of these fraud rings are going
13 to be jumping from school to school to school,
14 and the next school doesn't know they've just
15 defrauded another school.

16 So, if we can capture that
17 information up front, place it in a database
18 that we utilize like NSLDS, at least the other
19 schools have the opportunity to look at that
20 flag and make a decision, or refer it to OIG.

21 We need an easy way, as well, to be
22 able to track and follow these frauds. Maybe

1 a website with a main database that OIG can use,
2 and that the schools can enter this information
3 as well.

4 We need to start capturing IP
5 addresses. We're accepting all these online
6 applications, yet we don't know who these
7 individuals are. We have no way of tracking
8 them.

9 Capturing their IP address will
10 help us not only in trying to identify them, but
11 we can see if we're seeing the same IP address
12 over and over and over again and see if there's
13 a pattern, so that we can tell that there is
14 maybe a fraud ring hitting a certain sector, a
15 certain area.

16 We need to update each other. We
17 need to have some sort of quarterly events,
18 whether it's with OIG, the institutions, so
19 that we can see what the fraud trends are and
20 what the areas are that are being affected.

21 We need participation from the
22 universities, from the guarantors, from the

1 lenders, from everyone, from the Department of
2 Education.

3 Verification, again, we've brought
4 this up. You've heard it from everyone. We
5 have a lot of individuals applying for colleges
6 who don't have a high school diploma, don't have
7 a GED. We should be verifying this. We need
8 to have some sort of system in place.

9 Let it be the institutions,
10 Department of Ed. The Department of Ed should
11 probably use their systems to see who they have
12 on file for graduates, so that we can verify
13 this information, make it a little easier.

14 Recently, I've read an article that
15 there was about \$250,000 in losses due to a
16 fraud ring entering and applying, and none of
17 them had actual high school diplomas. They
18 were all fake.

19 Actually, I'm from Lincoln,
20 Nebraska, and we, right in our backyard, we just
21 had a fraud that occurred there as well. A
22 mother applied for student loans using her

1 son's information, took over \$200,000 as well.

2 The son didn't know anything about it.

3 So it happens in nice, quiet areas.

4 It happens in large cities. It happens
5 everywhere. Part about it is, we have to be
6 able to work together and try to curtail that.

7 I know the second sector of this was
8 use of technology. There is a lot of pros and
9 a lot of cons of how this should go. I do
10 support the use of technology, because it makes
11 it easier for investigation. It makes it
12 easier to track.

13 In the same aspect, I don't like the
14 idea of any significant banking institution
15 taking advantage of students with fees as well.
16 So, there's got to be a balance there, and
17 that's something that we can find. But I don't
18 think it should curtail the electronic
19 processing.

20 Cooling-off periods is another
21 thing I've heard, and I'm kind of an advocate
22 of. If it's a traditional school where they're

1 going to school and not online, we should not
2 be sending all of those funds up front.

3 Again, like I said, we should be
4 sending those funds to pay the tuition costs and
5 the fees and possibly the books, and then the
6 rest, there should be a cooling period to make
7 sure that they're in school and attendance is
8 checked, at least for the first three weeks,
9 make sure they're there.

10 Even the bookstores, books can run
11 us several hundred dollars, a couple of
12 thousand dollars. We should probably
13 advocate, if there is a local bookstore, using
14 vouchers for that bookstore, not using online
15 bookstores as well to make purchases. Those
16 funds that are not used from those accounts can
17 then be returned to the Department of
18 Education.

19 Again, I just want to say that I
20 applaud the efforts of the Department in
21 examining what can be done and what must be done
22 to combat the fraud within the Title IV funding

1 area, and offer numerous resources and
2 assistance to the Department for developing new
3 tools to mitigate fraud and streamline
4 distribution processes.

5 I want to thank you guys for your
6 time.

7 ASST. SEC. OCHOA: Thank you.
8 We're going to -- we have a gap here in the
9 scheduled testimonies, but if these
10 individuals are here, they're welcome to come
11 up now.

12 Next on the list, we have Arnie
13 Miles, Charlie Leonhardt, and Heidi Wachs
14 listed together. I'm not sure if any of them
15 are here.

16 MR. MILES: Thank you. My name is
17 Arnie Miles. I'm a middleware architect for
18 Georgetown University. I'm also the project
19 lead for the common identity trust
20 infrastructure, which is a joint partnership
21 between the Postsecondary Electronic Standards
22 Council and InCommon.

1 The Postsecondary Electronic
2 Standards Council is an organization located
3 here in DC that is devoted to standing up
4 standards for data communications across
5 higher ed.

6 They have a strong representation
7 from admissions officers, registrars, and
8 service providers, be they profit or
9 non-profit, all the big service providers that
10 contribute to the higher ed arena.

11 InCommon is the de facto expert in
12 identity management and federation with over --
13 with almost 280 higher ed institutions
14 participating in a federation. Our project
15 CommiT is designed to provide three things. We
16 provide single sign-on for students. We
17 provide a privacy protecting unique identifier
18 for students, which is a big boon to higher ed
19 institutions when the students show up. But,
20 and most importantly for this conversation, we
21 provide enhanced level of assurance for
22 credentials as they go through the system. We

1 have been working about a year now, and in
2 October, we intend to roll out our first
3 prototype.

4 Participants include testing
5 agencies, several large higher ed service
6 providers, five or six of the major
7 institutions, and our project is going to -- let
8 me catch my breath here a second. Our project
9 is going to be rolling out a database that
10 contains the minimum amount of information to
11 uniquely identify a human being, and to provide
12 password reset.

13 The unique identifier will allow
14 real-time connection to attribute stores that
15 are housed in a variety of different locations,
16 like College Board, ACT, high school
17 transcripts, letter of recommendation, all the
18 various places that a high school student
19 touches en route from high school to
20 university.

21 We have met with the CIO of FSA, who
22 has expressed an interest in joining us in a

1 pilot project and participating as a service
2 provider and a consumer of our attributes.

3 What ends up happening is we will
4 provide a credential, and when the student
5 first shows up, it's a low-level of assurance
6 credential, very similar to what you might get
7 from Google or OpenID or Facebook. That means
8 it's the same person every time, but that person
9 can assert that they're Donald Duck, if they so
10 choose, and no one knows the wiser.

11 As they interact, as this student
12 interacts with the system, however, events
13 happen. For example, they show up to take an
14 exam, and they're required to show a photo ID,
15 and the proctor checks that photo ID against the
16 ticket that the person provides. That event is
17 captured in the Commit data store.

18 They show up for another exam, they
19 show up for the ACE or the ACT or any other exam.
20 Those events are captured.

21 They go to their guidance office at
22 the high school and say, I want to start the

1 process. The guidance officer can go into the
2 system and say, I verify that this student is
3 who they say they are.

4 As they go through these events
5 accumulate, the interaction with the system
6 accumulates. And as these interactions
7 accumulate, we have a better assurance that the
8 student is, in fact, who they say they are.

9 If we know the student is in fact who
10 they say we are, we've gone a long ways towards
11 preventing this sort of fraud that we're here
12 to address today.

13 We also have a mechanism for
14 accessing in real-time from the authoritative
15 sources records of graduation from high school,
16 letters of recommendation, and exams, which
17 also increase our level of assurance.

18 So students, when they arrive, when
19 they apply for student loans, FSA has a good
20 sensation that this student is who they say they
21 are as they move into their further assurance
22 processes, those further assurance processes

1 are also documented in Commit.

2 When the student arrives at the
3 campus, the student has what we call an InCommon
4 Silver or a NIST level of assurance two
5 credential. We can assert, with authority,
6 that the student is who they say they are
7 because we have verified their photo IDs
8 multiple times. We have checked their
9 credentials. We have access to the high school
10 transcripts. Their guidance counselor has
11 vouched for them. All of these events have
12 happened and are stored.

13 The events happen anyway. The
14 effort really isn't monumental for anybody to
15 add to the process.

16 In a moment, Jack Suess is going to
17 speak to you about InCommon, which is the key
18 to this entire process. InCommon is already
19 providing the federated infrastructure to
20 enable this sort of sharing of attributes and
21 credentials amongst institutions, so I'm going
22 to turn it over to Jack now.

1 Thank you very much.

2 ASST. SEC. OCHOA: Thank you. And
3 Jack Suess is our next speaker.

4 MR. SUESS: Hi. It's an honor to
5 get a chance to speak before you. My name is
6 John Suess. I'm the Vice President of IT and
7 CIO at the University of Maryland-Baltimore
8 County. I'm also the chair of the InCommon
9 Federation here in -- that's part of the United
10 States higher education.

11 I come to you speaking really both
12 as an institutional CIO, so one that might have
13 to implement some of the requirements that
14 would come forth, and also as someone who has
15 been working with higher ed on trying to develop
16 standards that we think may begin to address
17 some of the concerns that were outlined in the
18 Inspector General's report.

19 I wanted to take a moment and just
20 speak a little bit about InCommon, to give just
21 a little bit of background, since it may not be
22 clear.

1 InCommon has been around for almost
2 a decade. We developed a number of the
3 federated identity technologies. These are
4 acronyms such as SAML, the secure access markup
5 Language. We've developed software called
6 Shibboleth.

7 This technology is now used by
8 banks, by businesses; federations are operated
9 in over 30 countries around the world. Most of
10 Europe operates their entire higher education
11 system using federated technology.

12 And so it's a tried and true
13 technology that's been out there for a number
14 of years.

15 In the United States, we presently
16 have 278 universities that are members of
17 InCommon. These universities represent about
18 7.5 million students today. They're most of
19 the larger institutions that are part of
20 research and education.

21 In addition, we have 100 sponsored
22 partners. These sponsored programs are

1 corporate entities that generally offer
2 software as a service or cloud options to higher
3 education.

4 Finally, we have 22 agencies or
5 government labs that are members of InCommon.
6 National Science Foundation, National
7 Institutes of Health, Department of Energy are
8 all members of InCommon and used for higher ed
9 to be accessing government resources in those
10 contexts that are there.

11 One of the key things I wanted to
12 highlight is over the last two years, I've spent
13 quite a bit of time working with the government
14 FICAM activities, the Federal Identity and
15 Credential Access Methods group that's out of
16 the GSA, and also the NSTIC Initiative for the
17 national strategy for trusted identity in
18 cyberspace.

19 InCommon is a trusted framework
20 provider that is recognized by FICAM, and we
21 strongly encourage the Department of Ed as it
22 thinks about these processes that it's doing to

1 leverage the work that is being done in other
2 government agencies around these activities.

3 For higher ed, what we would like to
4 be able to do is know that students accessing
5 the FAFSA form may go through the same process
6 that faculty doing grant-funded research do
7 with NSF or NIH, and not have to implement
8 completely different solutions for the
9 Department of Ed vis-a-vis the Department --
10 NIH, NSF, etcetera. And so we strongly
11 encourage that there will be great
12 institutional benefits if there could be a
13 common approach that the Department of Ed looks
14 at across multiple agencies.

15 One of the things in support of
16 FICAM that InCommon has done which we think will
17 give -- helpful here is we've launched what is
18 the Assurance Program this year.

19 This is a program where
20 universities can submit for certification that
21 they can offer level 1 and level 2 credentials
22 that meet the FICAM-approved standards.

1 Our trusted framework documents
2 have to be approved by FICAM. They explain the
3 auditing process that we go through, the
4 security process that we go through for these
5 credentials.

6 We now have a committee that's made
7 up of industry higher ed security leaders,
8 higher ed auditors, that reviews the
9 submissions that come in from institutions to
10 ascertain if they are meeting the standards to
11 be eligible for offering these higher
12 credentials.

13 We think that this program is soon
14 going to support Second Factor, as well as other
15 mechanisms for improving reliability of
16 credentials. It's really a place where we're
17 trying to adopt best practices that meet both
18 FICAM and NSTIC in terms of the approaches that
19 they're outlining.

20 Our relationship to CommiT is that
21 we see CommiT as a great project that could be
22 bringing in identities into the higher

1 education ecosystem that automatically have
2 come with a level of assurance 1 or 2.

3 By the fact that a student is having
4 to register for CommiT, they're going to be
5 applying through the CommiT process to
6 universities, this allows us to have a
7 transferral of trust that yes, in fact, their
8 name is who they say they are, their ID, their
9 alternate email address, all of these things as
10 we issue credentials.

11 We think this goes a long way
12 towards meeting the Higher Education
13 Opportunity Act requirements. And so we think
14 that this fits where the Department of Ed is
15 trying to go.

16 I would sort of end by saying just
17 a couple of quick recommendations. One, we
18 really do strongly encourage the Department of
19 Ed to allow as one of the supported mechanisms
20 -- approaches for identity verification for
21 campuses to use the InCommon assurance approach
22 that meets FICAM and NSTIC.

1 We think this fits with the other
2 government strategies that are there. It
3 adopts GSA-recommended practices. And we
4 think it is really aligned very nicely with the
5 program that you want to see in terms of
6 improving identity verification.

7 Our second recommendation would be,
8 and we have had discussions with the Department
9 of Ed, but we think that the FAFSA form could
10 be one of the key activities that becomes
11 something that large numbers of entities would
12 use their institutional credentials to be
13 accessing the FAFSA form.

14 And so if the Department of Ed would
15 extend FAFSA to be a relying party application
16 under the FICAM framework, we think that this
17 would have tremendous benefits, both for the
18 Department of Ed, and for the higher education.

19 One, in doing so, the Department of
20 Ed could encourage that students use their
21 institutional credentials that have been
22 approved at these higher levels of assurance as

1 a means of having some additional verification.

2 Now, you may still allow alternate
3 means, but this would give you a chance for
4 focusing many of your reviews on people who are
5 using the non-institutional credentials that
6 have lower levels of assurance, or have other
7 processes that you put in place for those
8 entities.

9 Lastly, I want to just highlight
10 that the one thing I don't recommend is asking
11 campuses to maintain lots of data on IP
12 addresses, log files, other kinds of things.
13 At many universities, this generates
14 tremendous amounts of data. Discerning which
15 students are coming from which IP address, and
16 separating them from all other faculty and
17 staff, or students who don't receive financial
18 aid, will really be a nightmare in terms of
19 whose log entries do we give you, what IP
20 addresses do we keep.

21 And so I really worry about this
22 idea of maintaining lots of log data that was

1 recommended by the Inspector Generals. We
2 have processes as part of the assurance
3 framework that require us to keep certain kinds
4 of activities for relying parties, and so we
5 think by following that, we would meet the
6 spirit that you intended in that approach.

7 And that finishes my comments.

8 ASST. SEC. OCHOA: Thank you.

9 Our next speaker is Robert
10 Barbieri.

11 MR. BARBIERI: Good morning. My
12 name is Robert Barbieri, and I'm in-house
13 counsel at Higher One. We certainly
14 appreciate the opportunity to comment this
15 morning.

16 As a leading provider of technology
17 and payment services to higher education
18 institutions, Higher One is particularly
19 interested in regulatory reform that
20 encourages the application of technology and
21 innovation to improve the delivery of Title IV
22 refunds to students and prevent financial aid

1 fraud.

2 Founded in 2000, Higher One's
3 focused on helping college business offices
4 manage operations and provide enhanced
5 services to students. We work closely with
6 colleges and universities to ensure that
7 students receive financial aid refunds and
8 credit balances securely and quickly.

9 Indeed, Higher One developed the
10 first widely adopted refund disbursement
11 solution, and has maintained a singular focus
12 on higher ed. We do not offer or sell any
13 credit products.

14 Currently, approximately 6.2
15 million students at more than 830 campuses
16 nationwide use our services. Historically,
17 the disbursement of financial aid refunds has
18 been paper-based, costly, and inefficient for
19 institutions.

20 The Department of Education has
21 worked towards modernizing refund
22 disbursements through the use of electronic

1 funds transfers, or EFTs, to mitigate fraud,
2 reduce expenses, and improve services to
3 students.

4 Indeed, in its 2008 negotiated
5 rulemaking, the Department acknowledged the
6 emergence of EFTs in the disbursement of Title
7 IV funds, and facilitated their use through its
8 final regulations.

9 We believe that the Department
10 should continue to support electronic
11 solutions, especially as a means of fraud
12 detection and prevention. Fraud deeply
13 impacts federal and state governments, higher
14 education institutions, students, their
15 families, and taxpayers alike.

16 We cannot afford to tolerate the
17 abuse of programs vital to our national
18 interest, especially at a time when families
19 are struggling through economic hardships, and
20 institutions are facing budget cuts.

21 Higher One's solution helps prevent
22 fraud by intrinsically analyzing disbursement

1 data for irregularities related to the amount
2 of a refund, frequency, location, and general
3 trends.

4 Furthermore, our platform employs a
5 verification process that promotes the
6 authentication of a recipient's identity. We
7 believe it's imperative that all entities
8 involved in the administration of Title IV
9 programs work in concert to help mitigate the
10 risk of fraud.

11 With respect to how students
12 receive their refunds, Higher One has always
13 made choice a hallmark of its solution.
14 Students at schools that use Higher One's
15 services can select to have their refunds
16 electronically deposited into any domestic
17 bank account, directly deposited to a checking
18 account serviced by Higher One, or in some
19 cases, have a paper check sent to them in the
20 mail.

21 Students are never charged a fee to
22 receive their refunds, regardless of how they

1 choose to receive their refunds.

2 For many students and families, the
3 lack of eligibility and accessibility of
4 banking services represents a significant
5 barrier to establishing a financial foothold,
6 and we believe that it's important to provide
7 access to financial products for all students.

8 An electronic refund distribution
9 service would be incomplete if students who are
10 unable to qualify for traditional banking
11 services were not provided with the means to
12 receive their refunds electronically.

13 It's also essential that the terms
14 and conditions of each account are clearly
15 communicated to the students in ways that they
16 can understand.

17 All banks, credit unions, and
18 check-cashing services charge for the services
19 they provide. The large, traditional banks
20 require capital to cover the costs of their vast
21 networks of brick-and-mortar bank branches,
22 and their fee schedules reflect this.

1 Students often do not qualify to
2 have the monthly fees or minimum balance
3 requirements of such banks waived.
4 Nontraditional or online banks choose a more
5 streamlined, electronic means of servicing
6 their customers, who are often less reliant on
7 making the trip to bank branches and actually
8 prefer the convenience of their laptop or smart
9 phone.

10 These banks are able to pass along
11 such cost savings to their customers, and as
12 such, they're popular with college students.
13 Higher One is one such company providing
14 students with access to high-value,
15 FDIC-ensured banking services. And we've
16 enhanced our account offerings with features
17 that meet the demands of the college students
18 we serve.

19 We recommend that the negotiating
20 committee that is ultimately appointed
21 recognize the importance of electronic
22 solutions, like Higher One's, in the delivery

1 of Title IV refunds, and the value of
2 accessible, student-oriented checking
3 accounts, and that any new regulations are
4 carefully drafted to prevent unnecessary
5 barriers to the use of EFTs and
6 post-disbursement financial management
7 options that are essential to such processes.

8 At the same time, we agree that the
9 negotiating committee should explore whether
10 enhanced disclosure of checking account fees to
11 students is appropriate.

12 Higher One favors transparency.
13 Our banking website includes full disclosures
14 of all fees that may be assessed on account
15 holders, and even detailed tips on precisely
16 how to avoid such fees.

17 The negotiating committee should
18 also be aware of the potential unintended
19 consequences of regulating banking fees that
20 are associated with servicing checking
21 accounts after electronic disbursements have
22 been made, and should be mindful of the existing

1 regime of federal banking laws and regulations
2 that have been promulgated by Congress and
3 other agencies.

4 We thank you for this opportunity to
5 comment. We've also submitted written
6 comments, and we look forward to further
7 sharing our experiences and assisting the
8 Department as we can in the upcoming rulemaking
9 process.

10 Thank you.

11 ASST. SEC. OCHOA: Thank you.

12 At this point, we don't have any
13 other scheduled speakers until 1:30. So are
14 there any speakers that wish to step forward at
15 this time that aren't scheduled?

16 MS. MULLINS: I'm not on the list,
17 but may I go ahead?

18 ASST. SEC. OCHOA: Yes.

19 Please identify yourself.

20 MS. MULLINS: Good afternoon. I'm
21 Christine Mullins. I'm the Executive Director
22 of the Instructional Technology Council.

1 We represent community colleges
2 around the country that have distance learning
3 programs, so this is obviously a real item of
4 interest to us. And we've informed our members
5 about the different scenarios, as far as the
6 distance learning fraud rings go, although I've
7 heard comments that we should not really call
8 it distance learning fraud rings, but just
9 fraud rings, because these are fraudulent
10 groups that have targeted -- all types of
11 students are taking part in these rings, the
12 face-to-face as well as the distance learning
13 students.

14 So I actually appreciate the
15 recognition that the Department of Education
16 has had as far as that goes. And I was a little
17 concerned with the investigative report, the IG
18 report, because -- and I've heard a couple
19 comments today that perhaps we should limit the
20 amount of money that students receive for
21 distance learning -- the amount of money that
22 distance learning students receive so that they

1 wouldn't be able to receive the housing
2 allowance that all students are entitled to.

3 And I just wanted to mention that we
4 shouldn't discriminate against those distance
5 learning students who need that money and are
6 taking the courses that they are enrolled for,
7 just as any other community college student,
8 and they have jobs, perhaps they're taking
9 part-time work, or they're mothers who are at
10 home who can't get a job, and they're taking
11 classes at their local community college so
12 that they can get those academic credentials so
13 they can get better jobs, and they can work in
14 the community.

15 So I think it would be wrong to
16 discriminate against those students, because
17 any community college student is entitled to
18 that, that student financial aid, so the online
19 students should be just as well.

20 And I just wanted to mention that
21 this is an issue that community colleges are
22 looking at. This has been a problem. They are

1 also interested in combating these fraud rings.

2 They don't want to be seen as being
3 negligent, and they have been making sure that
4 these rings are available on the campus.

5 The president's forum had a really
6 interesting session on this, where they had
7 groups from different colleges, for-profit
8 universities come to talk about what the steps
9 that they're taking to combat these rings. And
10 a lot of it is communication among their staff,
11 making sure that the financial aid people are
12 in touch with the faculty members so they all
13 know what's going on, and they can work together
14 to try and combat these rings.

15 So it's not going on in isolation.
16 I don't think the colleges are saying, oh, well,
17 you know, this isn't an issue for us. They are
18 taking those steps. So I really value
19 the Department of Education's approach to let
20 the colleges work together and try and combat
21 this fraud, and it may be that different
22 colleges have to use different methods, not

1 only the communication, but maybe delaying the
2 financial aid that's disbursed, giving it out
3 in chunks so that those who are committing fraud
4 are not able to get as much money up front,
5 communicating with the financial aid staff,
6 making them know that they can say no to some
7 of these perpetrators, because they're often
8 very vocal, and they're not always the nicest
9 of people, so sometimes it takes some educating
10 the staff to make sure that they know that they
11 can say no.

12 The staff at these different
13 colleges do a lot of research to make sure that
14 the -- students are who they say they are,
15 going through, and someone was even saying that
16 they're going on Google maps to make sure that
17 addresses that some of the fraud rings are
18 giving are actual, true addresses.

19 So I just want to make sure that
20 folks know, and I know the Department of
21 Education is aware of this, that the colleges
22 really are taking steps to try and combat this.

1 And I think that a logical approach,
2 and what I appreciate this forum, and as the
3 Higher Education Act is reauthorized, there
4 will be further discussion on this and other
5 issues for student authentication and all of
6 that. I think it's very important to have a
7 real, reasoned approach and talk with those
8 like at Northern Virginia Community College who
9 are in the trenches trying to deal with this,
10 and trying to work through it, rather than
11 create a -- you know, throwing the baby out with
12 the bath water type of thing, saying, oh, well,
13 we're going to cut all financial aid to students
14 who really need that money in order to graduate,
15 just because we can't think of a way to combat
16 this issue, not to punish those legitimate
17 students, because there are students who
18 definitely are ripping off the system.

19 So I appreciate your allowing me to
20 make that point.

21 Thank you.

22 ASST. SEC. OCHOA: Thank you.

1 speak. The first is Christopher Mullin.

2 Thank you.

3 MR. MULLIN: Good afternoon. My
4 name is Christopher Mullin, and I serve as the
5 Program Director for Policy Analysis at the
6 American Association of Community Colleges.

7 AACC is a national organization
8 representing the nation's 1132 community,
9 junior, and technical colleges, and their more
10 than 13 million students.

11 Community colleges are higher
12 education's largest sector, currently
13 enrolling close to half of all US
14 undergraduates.

15 Federal student aid is critical to
16 access and success in postsecondary education.
17 The Pell Grant Program has a particularly
18 important role in facilitating student
19 success, given the financial barriers of
20 low-income students.

21 Last year, over 3 million students
22 at community colleges received approximately

1 \$11 billion to assist in meeting educational
2 expenses.

3 Because of the overwhelming
4 importance of the Pell Grant and other Title IV
5 programs to community college students, AACC
6 and its member institutions are extremely keen
7 to combat any abuses of these programs that
8 could threaten their perceived integrity in the
9 eyes of policy-makers and the public.

10 Even though all evidence suggests
11 that instances of fraud are relatively rare,
12 upon learning about fraud in the form of Pell
13 runners and fraud rings as described in the
14 Office of Inspector General's report and
15 related media in the fall of 2011, AACC
16 immediately took action to better understand
17 the phenomenon.

18 We began contacting colleges and
19 engaging in conversations to better understand
20 the issues. In January of 2012, we convened
21 staff and presidents from our colleges, along
22 with a representative from our national council

1 for State Directors of Community Colleges, and
2 policy analysts and specialists, to discuss
3 federal student aid with an eye towards abuse
4 in the programs.

5 What we learned, summarized in a
6 report published in April of 2012, and that will
7 be submitted with part of my remarks today, was
8 that the extent of the problem is yet to be fully
9 known, and that community colleges are actively
10 engaged in practices to maintain the integrity
11 of Title IV student aid, and that there are
12 numerous actors within an institution that can
13 help to prevent the abuse of federal student aid
14 programs.

15 Examples include providing
16 bookstore credits, monitoring whether students
17 are authentically engaged in the learning
18 environment, disbursing aid over the semester,
19 and mining data for multiple or similar data
20 points.

21 This report makes clear that
22 community colleges are already taking a variety

1 of steps to combat fraud in the Pell Grant
2 Program. Any regulations in this area should
3 empower and support campus officials in these
4 efforts, and not impose a one-size-fits-all
5 approach where that is not warranted.

6 Our report also identified
7 additional steps that the Department of
8 Education can take, either through regulation
9 or other changes to its procedures, to help
10 institutions combat Pell Grant fraud.

11 ED should deploy its National
12 Student Loan Data System to provide more
13 real-time information to institutions about
14 prior attendance patterns and loan debt through
15 the use of flags or messages on the student
16 institutional student information report
17 records that ED electronically sends to the
18 colleges.

19 Timely information about students
20 is critical in identifying potential cases of
21 fraud, and we should be using tools that we have
22 at hand to our best advantage.

1 ED can also clarify when colleges
2 are justified in placing fraud alerts on
3 student records to further empower
4 institutional actors.

5 AACC and its member institutions
6 look forward to working with the Department on
7 this important issue. I thank you for your
8 time.

9 MS. MAHAFFIE: Thank you.

10 Our next speaker is Maureen
11 Budetti.

12 MS. BUDETTI: Good afternoon. I'm
13 Maureen Budetti, and I'm the Director of
14 Student Aid Policy at NAICU, the National
15 Association of Independent Colleges and
16 Universities.

17 I appreciate the opportunity to
18 speak today on behalf of our nation's private,
19 non-profit colleges and universities.

20 NAICU represents 962 colleges and
21 universities of varying size and mission, and
22 our schools have long been supportive of the

1 success of the student aid programs, whether it
2 be in their structure, administration,
3 funding, or integrity.

4 NAICU and its members have also
5 worked with the Department through a variety of
6 negotiated rulemaking processes on a variety of
7 topics, and we certainly are interested in
8 participating in the development of the current
9 efforts as well.

10 As described in the Federal
11 Register of May 1st, 2012, the Department
12 intends the upcoming negotiated rulemaking to
13 cover several somewhat unrelated but very
14 important topics, the so-called straw student
15 rings, the use of debit cards, and the
16 campus-based programs.

17 While NAICU has long been
18 supportive of efforts to prevent fraud, at this
19 time, we would like to focus to a larger extent
20 on examination of the campus-based programs.

21 However, I do note that since coming
22 over to provide these remarks, I've spoken with

1 just two people who have really clarified to me
2 the seriousness of the other issues, so we will
3 be paying attention to those as well.

4 Your notice mentions your intent to
5 improve and strengthen the federal
6 campus-based aid programs. It also mentions
7 that the Department's review of these programs
8 is part of a larger effort to systematically
9 review departmental regulations. And in this
10 case, the Department would be looking at ways
11 to improve the administration of those
12 programs.

13 We are unaware of any major
14 administrative problems associated with the
15 campus-based programs. Therefore, we urge you
16 to maintain these valuable programs, and not
17 try to remake them through the regulatory
18 process, especially on the eve of a scheduled
19 reauthorization of the Higher Ed Act.

20 We deeply appreciate the
21 Administration's support for and interest in
22 campus-based aid. The three campus-based

1 programs are of vital importance to our
2 schools. They often make the difference
3 between a student attending college or not.

4 We are particularly appreciative of
5 the Administration's innovative proposals to
6 revitalize the Perkins Loan Program. Such a
7 transformation would provide the benefits to
8 federal student loans to students who are in
9 real need of additional borrowing capacity and
10 are now forced to seek it on the more expensive
11 and restrictive private market.

12 We were disappointed when the new
13 program was stripped from the 2009 SAFRA
14 legislation, and hope that the reauthorization
15 will give Congress an opportunity to review and
16 enact this very worthy proposal.

17 The campus-based aid programs are
18 an essential part of the federal framework of
19 need-based aid. By requiring a substantial
20 match by colleges, these programs have changed
21 student aid practices on campuses, while
22 substantially growing the federal investment.

1 Unfortunately, the lack of funding
2 over the years has restricted their planned
3 expansion to additional schools, and denied the
4 assistance of SEOG, Work Study, and Perkins
5 Loans to many needy students.

6 Currently, only about half of our
7 schools participate in these programs.
8 However, while we do not see a need for
9 substantial regulatory change without a change
10 in statute, colleges are reeling from the
11 continuous rule-changing and substantial
12 increase in regulatory burden from recent
13 negotiated rulemaking sessions, and even more
14 change is expected in teacher education this
15 summer.

16 We encourage the Department to
17 focus its effort on ongoing fraud and abuse
18 where it happens, and as it happens, through its
19 power of enforcement.

20 Please do not focus your limited
21 resources on remaking highly functional
22 programs that are under the purview of Congress

1 in order to make any policy changes.

2 We appreciate again the opportunity
3 to testify and look forward to working with you
4 in the future.

5 MS. MAHAFFIE: Thank you.

6 Finally, we have Nathan Dean. Is
7 Nathan Dean here?

8 Okay. We have nobody else
9 scheduled to speak, but if there is anybody who
10 would like to speak at this time, please let us
11 know.

12 (Pause.)

13 Ajita Talwalker from our
14 undersecretary's office -- we have four more
15 persons scheduled to speak, but I don't think
16 he's back yet.

17 We will be here until 4:00. If
18 there's anybody who would like to speak, please
19 let us know, and in the meantime, we'll wait and
20 see if Nathan Dean comes back.

21 (Whereupon, the proceedings went
22 off the record at 1:43 p.m. and resumed at 2:08

1 p.m.)

2 MS. MAHAFFIE: Good afternoon. I
3 just want to let you know, we have no more
4 scheduled speakers.

5 We will be here until 4:00 if
6 anybody would like to speak, but I just wanted
7 to let you know that we have nobody else
8 scheduled. Thank you.

9 (Whereupon, the proceedings went
10 off the record at 2:08 p.m. and resumed at 3:05
11 p.m.)

12 MR. TOUGHEY: So I said I'd text my
13 wife -- I'd text my wife, and I said, this is
14 just great, because this is the only forum I
15 know of I can talk and nobody challenges
16 anything I say, and they just simply go next.

17 (Laughter.)

18 And so, I don't know that that
19 happens very often. But anyhow, for
20 everybody, I'm Dan Toughey. I'm President of
21 TouchNet Information Systems. We're an
22 electronic payment and ecommerce software

1 provider to higher education.

2 We've been doing it for 20 years,
3 and we have a lot of schools. Our school
4 population represents about 6 million of the 19
5 or 20 million or so students out there, so we
6 have a pretty big footprint in the market.

7 But I made some comments earlier
8 today, and so now I'm making comments as Dan
9 Toughey, private citizen, and I think that
10 they're very different than my comments were
11 this morning.

12 But we were in an interesting
13 conversation in the back about fees, related to
14 campus debit cards, and why -- maybe why it
15 won't be easier for schools to do better due
16 diligence in the process of selecting those
17 debit cards for more competitive fees, because
18 clearly, when you look at the providers of these
19 programs in the market today, in the higher
20 education market today, there are more
21 competitive debit card offerings out there,
22 frankly, all over the place.

1 But I mentioned briefly this
2 morning, I said, well, as the committee goes
3 forward, I really think the committee needs to
4 focus on the process at least as much as the
5 fees, because it's the process that is where the
6 students get trapped. And of course, that
7 report that just came out yesterday, and Rich
8 Williams spoke about this morning, I think he
9 called it the campus debit card trap.

10 And let me just describe the process
11 -- not all third-party servicers use, but let's
12 say, at least some, they represent a pretty good
13 share of the market for this type of solution
14 out there.

15 So, what happens -- what happens,
16 it's really called a refund management program,
17 and what the schools like about it is not
18 necessarily the bank accounts and the debit
19 cards and all of that. What they like about the
20 program is that it completely outsources and
21 off-loads the disbursement process to a third
22 party and gets it completely out of the way of

1 the school.

2 And this process of disbursement is
3 very painful for schools. I mean, they just --
4 you can see their eyeballs when you start to
5 talk about it.

6 And in fact, when you talk about the
7 fraud element and more distributions are needed
8 over time so that fraud doesn't happen sooner
9 in the process, they're sitting back there
10 going, oh my goodness, you're talking about
11 more of these horrible distribution processes
12 that have to take place.

13 And of course, students are not easy
14 to deal with in reality during this, because
15 that's their money, in their opinion, and they
16 want it now. Right? So it's different when
17 they're paying the schools, obviously, right?

18 But how that process works in some
19 cases right now is, the school signs up with a
20 vendor who has a complete outsourced refund --
21 we call it student refund management program.
22 And when it's time to make a disbursement, the

1 school then wires all the money. Okay, so
2 maybe it's \$10 million, depending on the size
3 of the school, maybe it's more than that.
4 Maybe it's less than that.

5 But they wire a complete lump sum to
6 the third party servicer's bank partner.
7 Okay? So every third party servicer that does
8 this, has debit cards, they have to be
9 affiliated with some kind of banks.

10 Some of those banks are well known,
11 Wells Fargo, otherwise, others of them, you've
12 never heard of before, Bancorp, Fulton Bank.
13 Things like this, okay? You've never heard of
14 them before.

15 But those are the only folks that
16 can issue debit cards and bank accounts, so
17 organizations that present themselves somewhat
18 as a bank really are affiliated with one of
19 these banks.

20 But anyhow. So let's just use \$10
21 million for example, it's disbursement time.
22 \$10 million is wired over to the bank.

1 The bank, at that point, then the
2 bank sets up, I'm going to say dummy accounts,
3 but they call them soft accounts, for each
4 student. The money goes into an account that's
5 already established, okay, long before the
6 student even knows this.

7 And then, the school sends over the
8 list of students with their PII, and says, these
9 are the students, these are the amounts. And
10 I hate to say it this way, but basically, they
11 say, go get them.

12 And so the third-party servicer
13 then has all the money, and they have all the
14 students' information, and they start the
15 marketing process of get your refund, okay?
16 Get your refund now, we have your money.

17 So the student then logs on to the
18 third party servicer's website, typically
19 using or has to use a 16-digit debit card number
20 that they were sent in the mail to log on, and
21 then they're asked to select, how do you want
22 this distribution?

1 And there's three ways generally
2 presented, at least two ways, but sometimes
3 three. The first way is, click here, and you
4 can have your money right now. Okay? Boom.

5 Next way is, if you want to do a
6 direct deposit to your existing bank account,
7 you have to print out a form and either mail it
8 or fax it back in, plus, direct deposit takes
9 two to three days to make happen. Right?

10 So basically, they have to -- they
11 can open a bank account online, but they can't
12 put in their bank account number for their
13 existing accounts. They have to print out a
14 form, mail it, or fax it.

15 Or the third way would be, if you
16 want a paper check, and then, literally, this
17 is a screen that's in that report that was
18 mentioned this morning from Rich Williams, that
19 there's all these steps for a check, and 21 days
20 later, you get it.

21 So, you can see what happens to the
22 students. I have two kids, college-aged, and

1 I have always said, they are no competition to
2 this, that if they are asked to do one of those
3 three, they would go, give me my money now.

4 Right?

5 And when you do that, you just
6 opened up a new bank account, and off you go.
7 And that's why this process has become magic.

8 Banks, for years, have tried to
9 figure out, how do we open up -- partner with
10 schools, how do we open up school bank accounts?
11 They never get above 15 percent of the student
12 population.

13 But using this method, tied to
14 disbursement money, and the money is at the bank
15 already, they're getting 40, 50, 60 percent or
16 more of the student population clicking that
17 money that basically says, give it to me now.
18 Okay?

19 So now, we've got all of these
20 students that have these bank accounts that
21 they frankly don't need. Most students come to
22 school with a bank account. The Federal

1 Reserve says that 92 percent of Americans have
2 a bank account, and only 8 percent are truly
3 un-banked.

4 It might be a little bit different
5 with college students, definitely different
6 around border towns and that type of thing.
7 But the fact of it is, this is, in most cases,
8 another bank account that is now opened for the
9 purpose of getting my financial aid refund
10 money fast and now. Okay?

11 So there's the magic in the system.
12 Regardless of what the fees are on that card or
13 bank account, that's how those bank accounts
14 are being opened, and the schools love it
15 because they don't have to do any of this.

16 The vendor loves it because all of
17 a sudden, now there's a formula to open up a mass
18 number of bank accounts and replicate this at
19 campus after campus after campus after campus.
20 Right?

21 And then we have all these new bank
22 accounts out there. And so that basically, in

1 my opinion, is the process.

2 There are not good, fair, equal
3 choices. If, in fact, direct deposit was laid
4 there with the same ability to plug in your
5 existing bank account number online at that
6 moment, just like, open a new bank account for
7 me, if those two choices were sitting there,
8 equally presented, direct deposit would win 75
9 percent of the time.

10 It's no different than with the
11 Social Security Administration. Again, we
12 were talking about that, that March 2013, they
13 will go completely electronic.

14 And so a social security recipient
15 has to go up to their website, I'm sure they have
16 call-in capabilities as well, but there sits
17 two buttons. One says, go direct deposit, and
18 one says, get a prepaid debit card, which is
19 very close to what a bank account is.

20 They look the same. They have the
21 same positioning. They have the same
22 marketing capability. There's no preference

1 one way or another.

2 And when you select, go direct
3 deposit, it isn't putting the recipient through
4 all of these hoops, now you have to go print this
5 and send that. It is just simple, enter in your
6 bank account number. If you select, I want a
7 debit card, then you go over to Comerica's bank
8 site, and they tell you about the debit card.
9 Same thing. But then I put in my
10 PII, versus it being pre-populated. That's
11 another key point. The recipient puts in their
12 personal information, their social security
13 number, their birth date, those types of things
14 that are needed to activate those accounts.

15 So, folks, I hate to say it, but it's
16 the process, first of all. It's a process that
17 schools love, and then it's a process that
18 students can't get out of. There is not truly
19 an opt-in mechanism happening here. This is
20 not everybody, but this is some, okay, in a big
21 part of the market it's happening out there.

22 So, then you move further

1 downstream, if you have the process the schools
2 like, and you have a way to get, let's just say,
3 50 percent of those students to take the bank
4 account, and you have a five-year exclusive
5 contract tied to that, then your fee structure
6 is kind of in your hands. There's no
7 competition.

8 You know, there's no way out for the
9 school. The students, you know, it's kind of
10 like Facebook. Have you ever tried to close
11 out a Facebook account? You can't do it. It's
12 an act of Congress to try to get yourself out
13 of Facebook, okay? The same thing kind of
14 happens here, as well.

15 So that's why -- that's why this
16 thing, in my opinion, has got to change just
17 from the perspective of, I really believe that
18 there's competition happening in the market
19 around debit cards, and there's going to be more
20 competition there, and the fees will come down
21 and be more reasonable. And of course with the
22 Consumer Financial Protection Bureau on this,

1 and everything else like that, that's all
2 driving that.

3 But there's got to be the focus on
4 the process, okay? The process is where the
5 problem is, and the process is the heyday for
6 the banks and the bank marketing partners that
7 they've never had before. There's a little
8 genius in that process, but it's really kind of
9 changed the game dramatically.

10 So. So, I've always said that my
11 kids would be no match for this. There's no
12 way. I mean, if you picked up -- if my daughter
13 Erin or Patrick got the email or a phone call
14 that said, we got your financial aid money, come
15 up to the website and pick your method, and you
16 got up to the website or you're on the phone and
17 they go, I can have it right now because it's
18 already pre-populated in a bank account, and I
19 can walk out the door and spend it, versus going
20 through these other things? It's a hands down
21 slam kind of situation.

22 So, anyhow, that concludes my

1 second and my last comment for the day on the
2 topic. But anyhow, thank you very much for
3 considering those comments.

4 ASST. SEC. OCHOA: Thank you.

5 (Whereupon, the above-entitled
6 matter was concluded at 3:17 p.m.)
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