Proposed Regulations Designed to Prevent Fraud and Abuse in the Title IV
Programs – Public Hearing May 31, 2012

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

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

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

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

Our intent is to ensure that Title IV funds are used properly and are, in fact,
provided to eligible individuals for their legitimate postsecondary pursuits. This hearing is the first step in that process.

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

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

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

Since the OIG's report was released, we have established an internal task force to take a closer look at the issue,
presented the topic at several conferences, including the most recent federal student aid conference, and now are taking steps to look at longer-term solutions.

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

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

That should not constrain anyone's comments, but please recognize this important limitation on our actions. The purpose of this
hearing is for us to hear from you. We will not engage in a lot of dialogue or address questions about what issues may or may not be part of an eventual negotiating session.

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

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

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

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

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

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

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

I speak today in response to the inquiry by the Department of Education on three areas: distance education and potential fraud and abuse; the use of electronic fund transfers; and the potential of negotiating on-campus-based aid programs for purposes of
meeting the President's executive order, 13563, improving regulation and regulatory review.

We appreciate the opportunity to have this dialogue today.

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

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

Since the Jesuit institutions are heavily engaged in distance education, any discussion on future regulatory action regarding distance education is of concern.
Also, it is exacerbated because of the soon-to-be requirement of state authorization on distance education.

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

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

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

To rectify that problem, that institution is now delaying disbursements
about two weeks, so the student can solidify the
beginning of their online work. In this way,
the serious students will be staying, and that
is one way to augment this potential concern in
prevention of fraud.

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

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

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

From time to time, there's been
national articles that indicate potential quality issues with some distance education courses. At our Jesuit institutions, quality is certainly equitable with the delivery of our traditional-based education courses in person on our campuses. And any new regulations to weed out faulty abuse by other higher education entities will also impact those institutions who deliver quality distance education, much like the gainful employment regulations.

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

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

The last thing any of us want in
higher education are more fees and higher interest rates. Because of that, we understand that there may be a need to delve deeper into these complications.

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

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

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

If this is the intended focus in a potential negotiating rulemaking session, then the only question AJCU would ask, and truly,
we're torn about this issue, if this is really
a regulatory or a legislative issue. Perhaps
it's a combination of both.

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

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

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

Ten years ago, to give an example,
our Jesuit institution had a 10 percent average
of Pell Grant student population. Now, we have increased that population to 22 to 23 percent. It has been a goal of our institutions to do so.

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

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

One institution wrote, "Any changes
to the campus-based aid program should be done
during the reauthorization process, where
program policy is foremost, rather than
budgetary issues, and where public comment is
more easily and readily attained from a wide
population."

Other institutions had similar
comments.

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

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

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

Does the Department of Ed
anticipate reauthorization of the authorizing
statute in the near term, such that prompt
review of existing regulations would likely be
disrupted or not lead to regulatory revisions
that could be implemented before
reauthorization? And we would say the answer
is yes to that.

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

And on one particular program, the
Perkins Loan Program, of which AJCU is
extremely involved with, we are working with
the administration on the redesign of that
program, which was articulated in the beginning
on the FY `10 budget. As we go through this
process, we ask if it would be helpful to spend
time on regulatory rulemaking when this effort
is underway. Clearly, Congress has to decide many of those issues.

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

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

So AJCU strongly encourages the Department of Education to not include campus-based aid programs in the upcoming negotiated rulemaking session, because reauthorization is months away, and there is no overriding concern that regulatory relief is needed because the programs function well.
It will be in the reauthorization process where a healthy national debate will occur on the viability of these campus-based aid programs.

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

I want to thank you for this opportunity.

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

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

I don't stand here today speaking for all community colleges in the United States of America, nor do I stand here speaking on behalf of just Broward College. I stand here
as a 30-year administrator and faculty and teacher in the K through 12 system that has an interest in this issue since we disperse aid to 30,000 in an open access institution.

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

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

As such, I would also include additional components for a more comprehensive approach to this issue. People who tend to commit fraud and other crimes usually know, the
longer they stay around, the chance is, they might get caught.

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

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

The balance could be disbursed later in the term, which is similar to incremental budgeting model by the grant funders in California. Also, mandates on institutions to include in their policies that more than physical presence, as is required in face-to-face instruction, be the same as required in online instructional modalities.
Institutional officers also want and need more flexibility and the discretion to limit sub and unsubsidized loans for certain groups of students, and require these students, at minimum, to achieve a certain level of academic success before loan debt is incurred.

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

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

Students who earn high school credentials not defined in the current ED definition of high school diploma or its equivalency are still allowed admissions to
open access institutions, such as community
colleges, but not -- will be allowed to get
federal student aid when the ATB provision is
eliminated.

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

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

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

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

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

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

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

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

I could be -- it could simply be
stated that high school completion or its equivalent in the language provided. These credentials, regardless of what they are called, will define these young adults for a lifetime, add to their struggles to get a job, and may cause them to eventually give up.

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

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

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

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

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

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

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

DR. SARVER: Good morning. Thank you for the opportunity to address this group and present suggestions for regulatory changes to further help institutions combat fraud and protect students and taxpayers from fraudulent activity.
As noted by the Inspector General, fraud rings have taken advantage of the expansion of distance education to commit significant fraud against Title IV programs and the higher education community. I am here to represent that community.

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

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

It is my hope that my testimony today will facilitate continued discussion on the development of regulations designed to prevent fraud and otherwise ensure the proper
use of Title IV, HEA program funds within the
context of current technologies.

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

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

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

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integrity, particularly financial fraud.

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

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

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

For example, I created a biometric profile using my finger and my touch pad. My unique identifier or password is 224. Even if you watch me create the profile, you would not be able to authenticate the identity.
successfully because you cannot replicate my gestures. My speed, height, angle and approach is unique as my fingerprint.

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

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

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

Even if a ringleader enrolls a large number of straw students, a biometric
authentication program will prevent successful authentications, while a close examination of IP addresses will reveal the identity and location of the fraudulent activities.

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

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

It was our intent to have a program in which the average, honest student can easily enroll and successfully complete their coursework. However, I firmly believe that institutions must expand, that the practical application of biometrics to confirm student identity across multiple events as part of the application, enrollment, and attendance
process, in combination with retaining IP
information in the student data system, will
set the standard for fraud detection and
prevention in higher education.

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

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

ASST. SEC. OCHOA: Any questions?

DEP. ASST. SEC. BERGERON: No

questions.

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

MS. McCLEAN: Good morning, everyone. On behalf of the National
Association of Student Financial Aid
Administrators, I thank you very much for the
opportunity to comment on proposed negotiated
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rulemaking issues this morning.

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

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

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

On today's topics, we offer the following comments. Related to the campus-based programs, we appreciate ED's ongoing efforts to meet the President's directive to conduct a retrospective analysis of regulations. The campus-based program
regulations are generally well-constructed, but have not been given a comprehensive review for some time.

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

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

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

In the FSEOG Program, one of the persistent issues that institutions find difficult is the order of awarding. The law requires priority for Pell Grant recipients,
and that within that priority, awards must be made to students with the lowest EFCs. However, the requirement to award strictly in lowest EFC order is an interpretation of the law.

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

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

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

With regard to fraud, we believe
that due diligence is more common than indifference on the part of schools. It's important to bear in mind that fraud does not look the same everywhere, and that one school's indicator of fraud may be another school's normal student characteristic.

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

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

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

A report on fraud in distance education by the OIG released last September pointed out other actions that ED could take to assist schools in identifying potential fraud.
OIG suggested that ED establish computer-matching agreements with prison systems to help identify applicants that are incarcerated and therefore ineligible for most forms of federal student aid, as we've seen that inmates are apparently a target of some fraud rings.

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

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

We also believe that ED needs to improve its own response to reported fraud from schools. One of the biggest frustrations that we have heard from schools is that when they report suspected fraud, nothing happens.
Schools should not be expected to act as enforcement agencies, but should be able to rely on government agencies that are responsible for investigation and enforcement.

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

Thank you very much for your time.

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

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

The mission of Bridgepoint Education is to provide high-quality innovative education services to enrich the lives and communities the company serves.
Bridgepoint owns and operates two regionally-accredited universities, Ashford University and University of the Rockies.

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

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

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

I encourage the Department to continue this collaborative approach to addressing important issues that affect
taxpayer investment in higher education and our nation's students.

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

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

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

No fraud or abuse of the Title IV funds can be tolerated. The issue of preventing fraud in higher education is far too
important to wait for the promulgation of final regulations.

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

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

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

As my colleague from Ashford University testified at the Phoenix hearing, our institution has invested in technology, policies, procedures, training, and staff to detect and prevent fraud in our distance
education programs.

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

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

We also support the OIG's recommendation that the Department should immediately deploy the National Student Loan Data System to provide institutions with real-time data through flags regarding data
elements such as common student addresses, student attendance patterns, and loan activity on the institutional student information record data to assist institutions in the detection and prevention of fraud.

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

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

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

The second set of recommendations
focus on those issues that may require statutory or regulatory change. We encourage the Department to work with Congress to amend the Higher Education Act to exclude room and board from the cost of attendance calculation and limit student borrowing to direct educational cost for online students.

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

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

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

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

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

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

These steps may include delaying release of stipend funds and/or credit balances beyond 14 days while investigating suspicious
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situations, and/or while requiring and weighting documentation providing the student's identity as deemed appropriate by the institution.

Holding institutions responsible only for taking action on what they know and when they know it, providing assurance that institutions acting in good faith or having certain safeguards in place will not be blamed for fraudulent or criminal behavior of students, providing that institutions who have taken the appropriate steps to prevent fraud are not penalized by those fraudulent students who do succeed in enrolling and who ultimately drop out by excluding these students from the institution's cohort default rate and gainful employment measures such as repayment rate and debt-to-income ratios, establish clear guidelines for what an institution should do in cases whereby fraud cannot be proven by the institution, but behaviors indicate that it is likely, for example, hold loans, return loan
funds, hold stipends, require notarized identity documents, and report to the OIG.

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

Thank you very much for this opportunity this morning.

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

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

We are a school of six full campuses, many sites, and over 78,000 students
in Northern Virginia. Our students come from 180 countries. We are in close proximity to Washington, DC and we really are a microcosm of the world.

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

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

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

I am a true believer in higher education as an equalizer, but I also know full well that we must be good fiduciaries of the public trust and tax dollars, or we will likely loose public support for these programs and
risk the futures of many of our nation's children and grandchildren. I am speaking for our future.

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

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

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

Of these, less than ten indicated
any means-tested benefits. I'm not sure how
one lives in Northern Virginia on nothing, but,
none of these were selected for verification by
the Department of Education.

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

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

Some of these I know are mistakes,
but are some attempts to defraud? We don't know.

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

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

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

Why cannot the Department of Homeland Security share information in a timely
fashion with the Social Security Administration? We are asked as financial aid directors to view citizenship documents and determine aid eligibility when we know that there are websites that allow creation of citizenship documents.

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

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

Online classes are the likely targets for scammers, since students have never had to appear on campus in many instances.
But contrary to that premise, the only fraud ring we have found thus far involved on-campus students who were otherwise dependent filing as recently married with spouses who didn't make enough to file taxes, thus making the student independent and much more eligible for grant aid.

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

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

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

The formula continues to be streamlined in an attempt to simplify the
process for students and families. I realize how very difficult it is to verify the value of assets if a family chooses not to be forthcoming with the information.

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

At the same time, in years past, because of the farm crisis, farms were eliminated, family farms were eliminated as an asset in the formula. Then, because family farms were eliminated, family businesses were eliminated, or small businesses were eliminated.

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

I've had farmers ask me what their
AGI could be to get a Pell Grant. Though I couldn't and wouldn't provide a figure due to the many variables the farmer needed to know, indicating that he can make his AGI say anything it needed to say to get a Pell Grant, and all they have to do is buy seed early, buy fertilizer early, buy machinery early.

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

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

We seem to be streamlining ourselves right into a major Pell Grant deficit with a formula that has little to do with reality. If we insist on simplifying to the
point that we can't really ensure that needy students are receiving the funds, why not take all the millions of dollars that we are using to determine who gets the limited dollars and provide at least the first two years of postsecondary education for everyone? I think the money would be better spent.

As I mentioned earlier, we're a large community college. In the past two years, we've seen a huge increase in the number of students with loan debt in excess of $45,000. Often these students are coming back to us with bachelor's degrees, master's degrees, doctoral degrees, taking minimal credits in a new program, and borrowing the maximum amount in loans.

Some are legitimate programs. We have nursing programs and oftentimes have advanced degree programs coming back to take those programs. But some of these students have been to five, six, seven different postsecondary institutions.
I have seen loan volumes of over $200,000 on more than one occasion. Most of these are not flagged by the Department, because there is undergraduate excess available to the student.

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

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

A mother with an income range of $6900 to $11,000 on two different years, totally maxed out on her own student loans, and has thus far borrowed PLUS Loans for her children to the tune of over $250,000. I think we know who's going to pay that money back.
A colleague of mine reported a potential new student to his college who was on her fourth college in two years, and who had already borrowed over $22,000 in student loans. She happened to also be getting a senior citizen waiver due to the fact that she was now 91 years old.

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

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

Students are now able to borrow at two different schools simultaneously if the loan periods don't overlap. No notice is sent to the schools until the loan total for the year is exceeded.
Would it be possible to provide MRRs for loans to prevent loan over-awards before they happen, or an ICR flag on a subsequent transaction that indicates loans at more than one school? We have to literally go into COD to figure these things out.

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

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

Currently, there's no requirement for colleges to collect other college transcripts from students who move from college.
to college. I think that could help some of the balance problem, if we were required to have transcripts.

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

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

Some students just really need a chance to start over, but the question is, how many times? If there are any credits that would transfer towards the current degree, it would be in the student's best interest to bring in these credits, thus saving the student
and/or taxpayer additional funds, and moving
the student closer to degree completion.

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

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

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

If he tries to stay in the course two
additional weeks, withdraws in the ninth week,
completes the first two classes successfully, goes two weeks longer than his brother, he's going to owe money back.

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

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

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

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

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

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

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

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

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

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

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

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

If they can prove success at that...
level, then they would increase their aid in future terms. I'll send the details of that to the Department.

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

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

The last issue of concern is the recently-voiced limitation on paying for book charges with Title IV aid when charges from a non-college-owned bookstore are applied to the student's account. I think the vast majority of colleges now have non-college-owned bookstores, and this issue really needs to be addressed.
If community colleges were forced to release money to students for books prior to census date, with the churn that we have, we would lose thousands of dollars from that early release aid.

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

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

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

I firmly believe that we must find a balance between access and accountability, and have an expectation that access will yield results. If we do so, committing fraud and abuse will be much more difficult.
And I am more than willing to work with the Department on any of these issues. I would invite the Department and Congress to come spend a week in our office. I would love to have you experience the issues that we see on a regular basis, and maybe it would help formulate better policy.

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

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

MR. WILLIAMS: Hello, everyone.

Good morning. My name is Rich Williams. I'm the higher education advocate with the United States Public Interest Research Group, a national public interest advocacy and student advocacy organization.

Thank you very much for the opportunity to make public comments. I'd like to spend my time today addressing an issue that has been -- we've been hearing growing complaints about from our student membership.
around the rapidly growing market of campus debit cards, including debit cards designed for the sole purpose of disbursement of federal student aid.

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

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

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

Banks and other financial firms are
taking advantage of a variety of opportunities
to form partnerships with colleges and
universities to produce campus student ID cards
and offer or receive student aid disbursements
on debit cards or pre-paid cards.

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

While schools are obtaining
revenues and reducing costs for outsourcing
certain services, the relationships between
schools and financial institutions have raised
certain questions, because students end up
bearing some of the costs directly, including
per swipe fees for using your debit card as a
debit card of fifty cents, a pay to pay fee;
inactivity fees of $10 or more starting six
months of inactivity, not even a full academic
year; overdraft fees of up to $38; and plenty more.

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

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

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

Higher One, the biggest financial firm, has partnerships with 520 campuses, enrolling over 4 million students. Currently
over 12 percent or one in eight of all federal aid recipients national disburse their aid money onto Higher One bank accounts. Wells Fargo, the biggest bank in the market, partners with 43 campuses that enroll over 2 million students.

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

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

The service appears to be endorsed by the colleges. Huntington Bank paid $25 million to co-brand and link their checking accounts with Ohio State University student IDs. Other schools receive substantial payouts, revenue sharing deals, and large
reductions in administrative costs.

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

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

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

A few of the specific recommendations include, the Department should
do more to collect information about the marketplace, which is currently opaque, including thorough annual compliance audit surveys already required of third-party servicers.

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

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

Three, the Department should enforce current rules that ban any credit function, such as overdrafts, on bank accounts
where a school or an agent of the school opens
the account on behalf of the student,
establishes a process the student must follow
to open a bank account, or similarly assists the
student or parent in opening a bank account.

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

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

Certain tactics currently mislead
students, including mailers from the bank to
the student before they even set on campus,
potentially even including a debit card which
they are instructed to activate; setting up
tables on campus during orientation and other
events to market their products; co-branding with the University logo; misleading language about the purpose of debit cards, including phrases like, you must activate your card now in order to receive aid; and even giving gifts to students to open checking accounts.

These may sound familiar, because they are mostly heavily restricted or banned practices in relation to credit cards. However, with debit cards, totally legal.

Additionally, the Department should ban all fees on financial aid dollars, whether disbursed to a pre-paid card or a bank account in partnership with the school. Financial aid dollars are taxpayer money designed to pay for educational expenses, not an education in high bank fees.

The Department should require all banks and financial firms to accept or disburse federal student aid to make their affinity agreements with schools public, just like with credit card agreements. The Department should
ban co-branding of materials including debit cards, websites and mailers, unless a student opts in to the service.

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

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

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

ATMs should also be made available
24 hours a day. Currently, many of them are placed in buildings that are locked up, leaving students no choice but to use foreign ATMs, again incurring the fee.

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

The Department should also advocate that schools negotiate out fees from their contracts, and possibly reward those who do. The Department should more aggressively pursue and collect complaints related to debit cards and financial aid disbursement, investigate potential violation, and use their current authority to find banks and financial firms participating in third-party servicing contracts that are violating those rules.

And finally, the Department should act in strong partnership with the Consumer
Financial Protection Bureau and attorney
generals around the country to enforce rules
and create new ones that protect students.

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

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

Thank you.

ASST. SEC. OCHOA: Thank you.

Our next speaker is Lauren
Saunders.

MS. SAUNDERS: Good morning. I am
Lauren Saunders, managing attorney with the
National Consumer Law Center. We advocate on
behalf of low-income consumers and seek to
protect them in their financial lives.
Thank you for this opportunity to testify today on behalf of our low-income clients. We support efforts to reduce fraud and increase efficiency in disbursement of higher education funds. But we think the Department needs to do more to ensure that students have the choice of where to bank, and that they are protected from unnecessary fees, risks, and inconveniences when the school selects their account.

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

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

The school account can provide convenience and other benefits to students. But some schools offer pre-paid cards and not
full-fledged bank accounts, and other offer accounts like Higher One that purport to be checking accounts, but that have many of the limitations of pre-paid cards, such as numerous fees, a lack of branches to make deposits, and small ATM networks.

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

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

Wells Fargo and US Bank, two banks that have among the largest numbers of school contracts, permit overdraft fees on debit cards.
and ATM transactions. Those two banks are also among a small number of banks that offer 300 percent short-term small loans, account advance payday loans that can trap consumers in a cycle of debt.

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

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

Even when opening a new account, a student may have a variety of reasons for preferring an account other than the one that has the contract with the school. The student might prefer a bank that has a broader free ATM
network or branches in the student's home city, has lower fees, does not encourage overdraft fees or overspending, has more sophisticated mobile apps or other financial management tools, or is a smaller, community-based institution with more personal service.

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

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

Schools should not wait until the funds are ready to disburse, resulting in
delays if the student selects an option other than the school-selected account.

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

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

The Department of Labor, for example, put forth guidance on the fees appropriate on pre-paid cards used by states to pay unemployment benefits.
Standards for these accounts can assist schools in negotiating the best deals for their students. Department and schools together should ensure that students are clearly informed that they can decline an account and can transfer any money to their own account easily and without charge.

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

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

ASST. SEC. OCHOA: Thank you.
So, next speaker is Wes Huffman.

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

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

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

Specifically, COHEAO members have expertise in the Perkins Loan Program and other student financial assistance programs. They are the ones who administer the Perkins Loan Program, working with students over a number of
years from the time a Perkins Loan is first
   disbursed until it is fully repaid.

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

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

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

   Perkins Loan administrators are
already providing this counseling in many fashions, and are quite focused on expanding the provision of financial education for their students, and in some cases, former students, as they are repaying the loans.

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

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

We are also hopeful the Department will give strong consideration to the cost
benefits for colleges and universities of going paperless, and the benefits afforded to students, such as easily accessible but secure personalized documents and information as it continues in these streamlining efforts.

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

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

In the discussion of the Perkins Loan Program, we suggest that extra care be taken to avoid adding administrative burden. The Department deserves nothing but praise for attempting to streamline regulations governing the Title IV program, particularly
campus-based, but there is always concern about unintended consequences.

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

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

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

Thank you for the opportunity to testify.
ASST. SEC. OCHOA: Thank you.

We're going to shortly take a break, but if Daniel Toughey is here, then his testimony would put us back on schedule.

So come on up.

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

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

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

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

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

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

Students are able to enroll online. 
They're able to see and manage and get text
notifications of activity within their refund in their student account. And most importantly, they're able to receive their funds electronically into their own bank account.

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

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

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

Many of our client institutions have achieved success rates of around 50 to 60 percent or more without mandating electronic disbursements, as currently provided for in the
FSA guidelines.

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

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

Now, as you're very aware, there's a growing trend in the higher education community to outsource financial aid disbursement to third-party servicers affiliated with banking entities.
The allure to institutions of not having to deal with this difficult process of disbursements of financial aid seems to outweigh the downside risks of allowing third-party banks and their banking partners to have direct access to student borrowers.

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

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

That being said, TouchNet is not opposed to using debit cards as part of a balanced approach to a financial aid disbursement program. In fact, we most likely will have one in a future offering.
However, students must be protected from excessive charges and aggressive business practices that are sometimes used to push bank products and debit cards.

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

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

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

The first one is, to restrict third-party marketing to students. The process of distributing financial aid is based
upon a relationship between the higher education institution and the student. No third-party servicer should be allowed to market its products and services directly to students without each student's individual consent.

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

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

Point number two is, we need to present unbiased enrollment options. Students must be able to choose their electronic disbursement options without undue bias and pressure. Direct deposit and bank products must be presented equally with a
balance of information that allows the student to make a good decision.

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

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

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

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

This will promote competition between third-party service providers and
allow the institutions to choose the best
products for their students at any time.

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

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

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

At the same time, TouchNet does not
believe that bank fees should be regulated by
the Department of Education, provided there's
some kind of framework or rules that are
established properly, as I just mentioned, the
competitive forces of the market will drive
costs to a reasonable level.

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

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

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

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

In conclusion, the 4 for 4 E-Disbursements Framework provides a practical and effective set of guidelines to ensure the integrity of the financial aid disbursement process. It should be seriously considered.
The advancement of electronic payments, while a best practice, must be administered with the needs of the student borrower in mind. Aggressive and misleading business practices must not be associated with the disbursement of Title IV federal financial aid.

As a model to reference in your review, I would encourage you to go to the US Treasury Department program called Go Direct. Effective March 2013, less than one year from now, all federal benefits, including social security and veterans benefits, will be disbursed and received electronically.

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

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

Thank you.

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

We will take now a fifteen-minute break.

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

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

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

Since 1978, Nelnet's been one of the leading education planning and education financing companies in the United States, and provides a comprehensive suite of products and services to education-seeking families and
operational product services to institutions that service them.

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

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

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

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

Nelnet currently operates five
segments, asset generation and management, student loan and guarantee services, tuition payment processing and campus commerce, enrollment services and list management, and software and technical services.

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

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

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

In addition to those schools, we overcome affordability concerns with our
tuition payment plans and convenient online payment options. We're helping more than about 1.5 million families.

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

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

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

Our operations rely on stable, secure processing, transmission, and storage
of confidential information within computer systems and networks. Although we believe we have robust change management and information security procedures and controls, cyber security system stability and the continued development and enhancing of our training, controls, audit procedures, processes, and practices remain a priority.

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

It's pretty much devastating to the consumers, especially to the borrowers themselves, when fraud occurs and there's loss, they have to clear the credit bureaus, they have to deal with the schools, they have to deal with the guarantors, all different types of segments throughout there.
Now, identity theft affects over about 11 million Americans in 2010. That's one out of 20. That's a lot. That's a lot. I'm elated to hear the Department of Education Office of Inspector General has taken this issue to heart, and taken important steps in acquiring information to help mitigate these risks. It's going to help mitigate these risks to our student populations, to taxpayers, and all the educational institutions.

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

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

There are many steps that we can take to institute and help reduce the number of identity theft incidents and reduce the burden
of the OIG officers and the educational institutions.

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

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

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

Take away one of those, you're going to curtail the fraud there. So let's take away that opportunity. Let's take away that $7,500 that's there that they can take.
If I'm a fraud ringleader, and I'm going to go onto a distance learning school and see I'm only going to be allowed to get $2,500, the cost of tuition, fees, and books, I'm not going to bother. It's not worth my time. So, why even bother? Right there, you've solved your problems with distance education.

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

And when these loans go into repayment, and we start to collect, the parent says, I never signed this, and most of them are electronic, of course. So there's another issue there. Those loans are huge, the Parent PLUS Loans. You can take out $40,000, $50,000. Those burdens go to the taxpayers, then.
What can we do in these instances?

We need to have some form of validation.

Currently, today, I know we have the FAFSA that's out there. We also do a run through Social Security Administration.

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

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

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

Other items we can look at to help within these is when we provide these loans,
again, we should segment how we send out these loans.

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

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

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

Proposed Regulations Designed to Prevent Fraud and Abuse in the Title IV Programs – Public Hearing May 31, 2012
So OIG is burdened with trying to investigate these, and not being able to prosecute.

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

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

And again, most of these are going to be higher dollar amounts from the student
PLUS Loans.

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

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

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

We need an easy way, as well, to be able to track and follow these frauds. Maybe
a website with a main database that OIG can use, and that the schools can enter this information as well.

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

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

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

We need participation from the universities, from the guarantors, from the
lenders, from everyone, from the Department of Education.

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

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

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

Actually, I'm from Lincoln, Nebraska, and we, right in our backyard, we just had a fraud that occurred there as well. A mother applied for student loans using her
son's information, took over $200,000 as well. The son didn't know anything about it.

So it happens in nice, quiet areas. It happens everywhere. Part about it is, we have to be able to work together and try to curtail that.

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

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

Cooling-off periods is another thing I've heard, and I'm kind of an advocate of. If it's a traditional school where they're
going to school and not online, we should not
be sending all of those funds up front.

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

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

Again, I just want to say that I
applaud the efforts of the Department in
examining what can be done and what must be done
to combat the fraud within the Title IV funding
area, and offer numerous resources and assistance to the Department for developing new tools to mitigate fraud and streamline distribution processes.

I want to thank you guys for your time.

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

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

MR. MILES: Thank you. My name is Arnie Miles. I'm a middleware architect for Georgetown University. I'm also the project lead for the common identity trust infrastructure, which is a joint partnership between the Postsecondary Electronic Standards Council and InCommon.
The Postsecondary Electronic Standards Council is an organization located here in DC that is devoted to standing up standards for data communications across higher ed.

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

InCommon is the de facto expert in identity management and federation with over -- with almost 280 higher ed institutions participating in a federation. Our project CommiT is designed to provide three things. We provide single sign-on for students. We provide a privacy protecting unique identifier for students, which is a big boon to higher ed institutions when the students show up. But, and most importantly for this conversation, we provide enhanced level of assurance for credentials as they go through the system. We
have been working about a year now, and in October, we intend to roll out our first prototype.

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

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

We have met with the CIO of FSA, who has expressed an interest in joining us in a
pilot project and participating as a service provider and a consumer of our attributes.

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

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

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

They go to their guidance office at the high school and say, I want to start the
process. The guidance officer can go into the system and say, I verify that this student is who they say they are.

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

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

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

So students, when they arrive, when they apply for student loans, FSA has a good sensation that this student is who they say they are as they move into their further assurance processes, those further assurance processes...
are also documented in CommiT.

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

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

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

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

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

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

I wanted to take a moment and just speak a little bit about InCommon, to give just a little bit of background, since it may not be clear.
InCommon has been around for almost a decade. We developed a number of the federated identity technologies. These are acronyms such as SAML, the secure access markup Language. We've developed software called Shibboleth.

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

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

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

In addition, we have 100 sponsored partners. These sponsored programs are
corporate entities that generally offer software as a service or cloud options to higher education.

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

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

InCommon is a trusted framework provider that is recognized by FICAM, and we strongly encourage the Department of Ed as it thinks about these processes that it's doing to
leverage the work that is being done in other
government agencies around these activities.

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

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

This is a program where
universities can submit for certification that
they can offer level 1 and level 2 credentials
that meet the FICAM-approved standards.
Our trusted framework documents have to be approved by FICAM. They explain the auditing process that we go through, the security process that we go through for these credentials.

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

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

Our relationship to CommiT is that we see CommiT as a great project that could be bringing in identities into the higher
education ecosystem that automatically have come with a level of assurance 1 or 2.

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

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

I would sort of end by saying just a couple of quick recommendations. One, we really do strongly encourage the Department of Ed to allow as one of the supported mechanisms -- approaches for identity verification for campuses to use the InCommon assurance approach that meets FICAM and NSTIC.
We think this fits with the other government strategies that are there. It adopts GSA-recommended practices. And we think it is really aligned very nicely with the program that you want to see in terms of improving identity verification.

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

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

One, in doing so, the Department of Ed could encourage that students use their institutional credentials that have been approved at these higher levels of assurance as
a means of having some additional verification.

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

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

And so I really worry about this idea of maintaining lots of log data that was
recommended by the Inspector Generals. We have processes as part of the assurance framework that require us to keep certain kinds of activities for relying parties, and so we think by following that, we would meet the spirit that you intended in that approach.

And that finishes my comments.

ASST. SEC. OCHOA: Thank you.

Our next speaker is Robert Barbieri.

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

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

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

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

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

The Department of Education has worked towards modernizing refund disbursements through the use of electronic
funds transfers, or EFTs, to mitigate fraud, reduce expenses, and improve services to students.

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

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

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

Higher One's solution helps prevent fraud by intrinsically analyzing disbursement
data for irregularities related to the amount of a refund, frequency, location, and general trends.

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

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

Students are never charged a fee to receive their refunds, regardless of how they
choose to receive their refunds.

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

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

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

All banks, credit unions, and check-cashing services charge for the services they provide. The large, traditional banks require capital to cover the costs of their vast networks of brick-and-mortar bank branches, and their fee schedules reflect this.
Students often do not qualify to have the monthly fees or minimum balance requirements of such banks waived. Nontraditional or online banks choose a more streamlined, electronic means of servicing their customers, who are often less reliant on making the trip to bank branches and actually prefer the convenience of their laptop or smartphone.

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

We recommend that the negotiating committee that is ultimately appointed recognize the importance of electronic solutions, like Higher One's, in the delivery
of Title IV refunds, and the value of accessible, student-oriented checking accounts, and that any new regulations are carefully drafted to prevent unnecessary barriers to the use of EFTs and post-disbursement financial management options that are essential to such processes.

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

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

The negotiating committee should also be aware of the potential unintended consequences of regulating banking fees that are associated with servicing checking accounts after electronic disbursements have been made, and should be mindful of the existing
regime of federal banking laws and regulations
that have been promulgated by Congress and
other agencies.

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

Thank you.

ASST. SEC. OCHOA: Thank you.

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

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

ASST. SEC. OCHOA: Yes.

Please identify yourself.

MS. MULLINS: Good afternoon. I'm
Christine Mullins. I'm the Executive Director
of the Instructional Technology Council.
We represent community colleges around the country that have distance learning programs, so this is obviously a real item of interest to us. And we've informed our members about the different scenarios, as far as the distance learning fraud rings go, although I've heard comments that we should not really call it distance learning fraud rings, but just fraud rings, because these are fraudulent groups that have targeted -- all types of students are taking part in these rings, the face-to-face as well as the distance learning students.

So I actually appreciate the recognition that the Department of Education has had as far as that goes. And I was a little concerned with the investigative report, the IG report, because -- and I've heard a couple comments today that perhaps we should limit the amount of money that students receive for distance learning -- the amount of money that distance learning students receive so that they
wouldn't be able to receive the housing allowance that all students are entitled to.

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

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

And I just wanted to mention that this is an issue that community colleges are looking at. This has been a problem. They are
also interested in combating these fraud rings. They don't want to be seen as being negligent, and they have been making sure that these rings are available on the campus.

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

So it's not going on in isolation. I don't think the colleges are saying, oh, well, you know, this isn't an issue for us. They are taking those steps. So I really value the Department of Education's approach to let the colleges work together and try and combat this fraud, and it may be that different colleges have to use different methods, not
only the communication, but maybe delaying the financial aid that's disbursed, giving it out in chunks so that those who are committing fraud are not able to get as much money up front, communicating with the financial aid staff, making them know that they can say no to some of these perpetrators, because they're often very vocal, and they're not always the nicest of people, so sometimes it takes some educating the staff to make sure that they know that they can say no.

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

So I just want to make sure that folks know, and I know the Department of Education is aware of this, that the colleges really are taking steps to try and combat this.
And I think that a logical approach,
and what I appreciate this forum, and as the
Higher Education Act is reauthorized, there
will be further discussion on this and other
issues for student authentication and all of
that. I think it's very important to have a
real, reasoned approach and talk with those
like at Northern Virginia Community College who
are in the trenches trying to deal with this,
and trying to work through it, rather than
create a -- you know, throwing the baby out with
the bath water type of thing, saying, oh, well,
we're going to cut all financial aid to students
who really need that money in order to graduate,
just because we can't think of a way to combat
this issue, not to punish those legitimate
students, because there are students who
definitely are ripping off the system.

So I appreciate your allowing me to
make that point.

Thank you.

ASST. SEC. OCHOA: Thank you.
Are there any other speakers that wish to step forward at this point, that aren't on the schedule?

All right. Then we will break, and reconvene at 1:30.

Thank you.

(Whereupon, at 11:43 a.m., the meeting was recessed, to reconvene at 1:30 p.m.)

A-F-T-E-R-N-O-O-N S-E-S-S-I-O-N

1:33 p.m.

MS. MAHAFFIE: Good afternoon and welcome back. We appreciate your interest and your continued comments.

I'm Lynn Mahaffie. I'm the Senior Director for Policy Coordination, Development, and Accreditation Service here in the Office of Postsecondary Education.

You met Ron Sann this morning, and in a couple minutes, we'll be joined by Ajita Talwalker from our under-secretary's office.

We have three people scheduled to
Thank you.

MR. MULLIN: Good afternoon. My name is Christopher Mullin, and I serve as the Program Director for Policy Analysis at the American Association of Community Colleges. AACC is a national organization representing the nation's 1132 community, junior, and technical colleges, and their more than 13 million students.

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

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

Last year, over 3 million students at community colleges received approximately
$11 billion to assist in meeting educational expenses.

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

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

We began contacting colleges and engaging in conversations to better understand the issues. In January of 2012, we convened staff and presidents from our colleges, along with a representative from our national council
for State Directors of Community Colleges, and policy analysts and specialists, to discuss federal student aid with an eye towards abuse in the programs.

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

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

This report makes clear that community colleges are already taking a variety
of steps to combat fraud in the Pell Grant Program. Any regulations in this area should empower and support campus officials in these efforts, and not impose a one-size-fits-all approach where that is not warranted.

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

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

Timely information about students is critical in identifying potential cases of fraud, and we should be using tools that we have at hand to our best advantage.
ED can also clarify when colleges are justified in placing fraud alerts on student records to further empower institutional actors.

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

MS. MAHAFFIE: Thank you.

Our next speaker is Maureen Budetti.

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

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

NAICU represents 962 colleges and universities of varying size and mission, and our schools have long been supportive of the
success of the student aid programs, whether it be in their structure, administration, funding, or integrity.

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

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

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

However, I do note that since coming over to provide these remarks, I've spoken with
just two people who have really clarified to me
the seriousness of the other issues, so we will
be paying attention to those as well.

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

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

We deeply appreciate the
Administration's support for and interest in
campus-based aid. The three campus-based
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programs are of vital importance to our schools. They often make the difference between a student attending college or not.

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

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

The campus-based aid programs are an essential part of the federal framework of need-based aid. By requiring a substantial match by colleges, these programs have changed student aid practices on campuses, while substantially growing the federal investment.
Unfortunately, the lack of funding over the years has restricted their planned expansion to additional schools, and denied the assistance of SEOG, Work Study, and Perkins Loans to many needy students.

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

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

Please do not focus your limited resources on remaking highly functional programs that are under the purview of Congress.
in order to make any policy changes.

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

MS. MAHAFIE: Thank you.

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

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

(Pause.)

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

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

(Whereupon, the proceedings went
off the record at 1:43 p.m. and resumed at 2:08
MS. MAHAFFIE: Good afternoon. I just want to let you know, we have no more scheduled speakers.

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

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

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

(Laughter.)

And so, I don't know that that happens very often. But anyhow, for everybody, I'm Dan Toughey. I'm President of TouchNet Information Systems. We're an electronic payment and ecommerce software
provider to higher education.

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

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

But we were in an interesting conversation in the back about fees, related to campus debit cards, and why -- maybe why it won't be easier for schools to do better due diligence in the process of selecting those debit cards for more competitive fees, because clearly, when you look at the providers of these programs in the market today, in the higher education market today, there are more competitive debit card offerings out there, frankly, all over the place.
But I mentioned briefly this morning, I said, well, as the committee goes forward, I really think the committee needs to focus on the process at least as much as the fees, because it's the process that is where the students get trapped. And of course, that report that just came out yesterday, and Rich Williams spoke about this morning, I think he called it the campus debit card trap.

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

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

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

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

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

But how that process works in some cases right now is, the school signs up with a vendor who has a complete outsourced refund -- we call it student refund management program. And when it's time to make a disbursement, the
school then wires all the money. Okay, so maybe it's $10 million, depending on the size of the school, maybe it's more than that. Maybe it's less than that.

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

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

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

But anyhow. So let's just use $10 million for example, it's disbursement time. $10 million is wired over to the bank.
The bank, at that point, then the bank sets up, I'm going to say dummy accounts, but they call them soft accounts, for each student. The money goes into an account that's already established, okay, long before the student even knows this.

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

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

So the student then logs on to the third party servicer's website, typically using or has to use a 16-digit debit card number that they were sent in the mail to log on, and then they're asked to select, how do you want this distribution?
And there's three ways generally presented, at least two ways, but sometimes three. The first way is, click here, and you can have your money right now. Okay? Boom.

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

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

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

So, you can see what happens to the students. I have two kids, college-aged, and
I have always said, they are no competition to this, that if they are asked to do one of those three, they would go, give me my money now. Right?

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

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

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

So now, we've got all of these students that have these bank accounts that they frankly don't need. Most students come to school with a bank account. The Federal
Reserve says that 92 percent of Americans have a bank account, and only 8 percent are truly un-banked.

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

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

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

And then we have all these new bank accounts out there. And so that basically, in
my opinion, is the process.

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

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

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

They look the same. They have the same positioning. They have the same marketing capability. There's no preference
one way or another.

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

So, folks, I hate to say it, but it's the process, first of all. It's a process that schools love, and then it's a process that students can't get out of. There is not truly an opt-in mechanism happening here. This is not everybody, but this is some, okay, in a big part of the market it's happening out there.
downstream, if you have the process the schools like, and you have a way to get, let's just say, 50 percent of those students to take the bank account, and you have a five-year exclusive contract tied to that, then your fee structure is kind of in your hands. There's no competition.

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

So that's why -- that's why this thing, in my opinion, has got to change just from the perspective of, I really believe that there's competition happening in the market around debit cards, and there's going to be more competition there, and the fees will come down and be more reasonable. And of course with the Consumer Financial Protection Bureau on this,
and everything else like that, that's all driving that.

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

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

So, anyhow, that concludes my
second and my last comment for the day on the topic. But anyhow, thank you very much for considering those comments.

ASST. SEC. OCHOA: Thank you.

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