

EduCap Responds To Washington Post Article

In its July 16th article, *The Washington Post* wrote that EduCap “pioneered” private student lending “through a tiny nonprofit company with a noble goal: helping students pay for college.” However, the *Post* misrepresented the accomplishments of our organization and distorted many of the facts. They had several important pieces of information from EduCap they didn’t share with their readers.

To start with, the article largely ignored the positive impact of EduCap’s innovations on the industry and the benefits these innovations have provided for students and their families.

EduCap’s Innovation and Securitization of Student Loans Help Students

In 1991, EduCap pioneered using securitization to raise capital for funding student loans. By breaking new ground, EduCap freed up billions of dollars from the capital markets to provide more students with more opportunity to obtain the education of their dreams and the market forces to keep prices low. As the AARP publication NRTA put it, EduCap “pioneer[ed] the model of providing education loans direct to consumers, without federal government guarantees.” This has fueled competition – lots of it – for student loans, as more than 150 competitors appeared after EduCap created this system of securitization.

Today, these 150 companies give students and their families competition and choice that never before existed. This competition puts students in control of their education finance needs in a way that did not exist before EduCap’s innovation.

Since the late 1980s, EduCap alone has helped 350,000 students attend college, better themselves and reach for their dreams. Hundreds of thousands more have benefited from the competition in the industry spawned by EduCap’s innovation. As one member of Congress said at a recent Senate hearing, “good old fashioned American competition is the great antidote here.” We agree.

Misrepresentation of EduCap’s Interest Rates

In the article, the *Post* misrepresents the interest rates EduCap offers students and portrays them as high. The *Post* regrettably failed to note that many of the companies making loans to higher risk individuals charge comparable rates. Less than one-half of one percent of EduCap’s loans have gone to individuals

who pay the higher rates referenced in the article – that’s because those individuals are more than 24 times more likely to default on their loans. EduCap has provided over \$150 million of its own capital to cover the cost of defaulted loans. If EduCap had originated federally funded student loans, this \$150 million would have been funded by taxpayers.

EduCap’s interest rates are at or below the rates of others in this competitive industry – which industry observers place at 10.5 percent. The market EduCap has created in the private student loan business is what helps keep loan rates very competitive for students. EduCap is proud of its achievements and how it has been able to assist students and their families who were previously underserved or lacked adequate choices.

EduCap Works Directly with Students and Their Families, Not with University Financial Aid Offices

The *Post* article was published amid a swirling controversy in the student loan business, but it is important to make clear that EduCap does not engage in the practices at the heart of the controversy – questionable arrangements between lenders and financial aid offices.

Here are the facts: EduCap works directly with student borrowers and does not market through the financial aid offices at colleges and universities. EduCap does not provide government-backed loans and does not have any consulting or co-branding agreements with college financial aid offices. EduCap does not participate in federal loan programs, use any form of government subsidy or guarantee or have education lending contracts with schools.

EduCap has been a leading proponent of much-needed reforms that require the disclosure of relationships between student loan lenders and college financial aid offices. It has also been a leader in disclosure and transparency, adhering to the established guidelines contained in the Truth in Lending Act. EduCap has actively advocated its position in both the U.S. House of Representatives and the U.S. Senate, calling for more transparency, an end to secret deals and an end to any consulting arrangements between lenders and university student loan officials.

Other Concerns

As the story noted, one of EduCap’s assets is an airplane that is used to conduct business. However, the *Post* erroneously portrayed business trips as personal vacations in its article. Our reimbursement policy is clear and consistently followed. Reimbursement to EduCap is required for anyone who is on an EduCap business trip but who is not present for the organization’s business purpose.

It is important to note that EduCap is a non-profit but neither solicits nor accepts charitable contributions. In fact, it has donated or pledged more than \$170 million dollars to over 50 educational and charitable organizations.

We were disappointed by the tone and viewpoint of the Post article. EduCap has grown from a fledgling and nearly bankrupt organization 19 years ago to become a leading, direct-to-consumer private loan innovator. EduCap is proud of its mission, proud of its accomplishments and proud to have helped make education possible for hundreds of thousands of students.

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