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Wednesday, December 12, 2007

Student loan company, N.Y. attorney general reach settlement over marketing practices

Marisa Schultz / The Detroit News

A student loan company that used what investigators called deceptive marketing tactics to lure students at three Michigan colleges and elsewhere into potentially risky loan consolidation reached a settlement agreement Tuesday with the New York attorney general.

Central Michigan University, Wayne State University and University of Detroit Mercy were among the 63 colleges nationwide that sold their identification -- colors, mascot, logo, name -- to Florida-based Student Financial Services (SFS) in order to imply the loan was sanctioned by the school, New York Attorney General Andrew M. Cuomo said.

"I had been deceived," said Mike Palma, a recent CMU graduate, who unknowingly signed up for a student loan consolidation with SFS last year at a CMU graduation fair. The company was operating under the name University Financial Services.

Advertisement




"Because (the company reps) were wearing CMU clothing, giving out CMU sporting schedules and their sign said University Financial Services and was in school colors, I thought these people were from my school's financial aid office and merely advising me on how to save money," Palma said at a New York press conference on Tuesday.

It took about a week of phone calls to withdraw the consolidation, Palma said.

Under the settlement agreement, the company agreed to end all lending agreements with the 63 universities as well as agreements with the five sports marketing companies, such as Nelligan Sports Marketing Inc. that arranged the deal with University of Detroit

Mercy, Cuomo's office said.

CMU spokesman Steve Smith the university had a five-year contract that began in December 2006 with SFS, operating under the name University Financial Services. But CMU severed ties with the company in August in light of the attorney general's investigation.

"We certainly would never get into an agreement with a company that would take advantage of our students and alumni," Smith said. "It was a business deal. ... And once we had a chance to review the terms and conditions we decided that this was not a good business situation and we terminated the business agreement immediately."

Under the deal, the loan company would pay CMU \$10,000 annually to advertise to its students. In addition, CMU would get \$75 for each loan application generated after the first 150. CMU never reached that

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threshold, Smith said.

SFS also agreed to launch a print advertising campaign in local newspapers about safety in loan shopping and agreed to end the practice of cash-based inducements to apply that include creating contests where students could win \$1,000.

"When lenders use deceptive techniques to advertise their loans, they are playing a dangerous game with a student's future," Cuomo said.

"A student loan is a very serious financial commitment, and choosing the wrong loan can lead to devastating consequences."

You can reach Marisa Schultz at (313) 222-2310 or mschultz@detnews.com.

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