

Overseeing the Outsourced

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By **Michael Stratford**

Colleges in recent years have increasingly turned to outside companies to manage parts of the financial aid process and provide other services to students. And the boom in outsourcing now has federal regulators racing to keep up.

The Education Department is beefing up its oversight over the hundreds of different companies that colleges hire for a wide range of services that it says are somehow related to federal student aid dollars and therefore subject to regulation. **That includes things as mundane as document processing as well as innovative platforms that colleges use to track student financial aid and provide loan counseling to students.**

Department officials have set up a new process for tracking these companies, which they're responsible for regulating but have had trouble identifying in some cases. And officials are trying to draw a clearer line around which types of companies fall under Education Department jurisdiction in the first place.

That's raised new questions and some confusion about who is subject to regulation, especially for companies providing bundled services or financial literacy.

Colleges outsourcing certain work is, of course, nothing new; think bookstores and food service historically, and more recently information technology and student health services. But in recent years, industry and college officials as well as department officials say that **institutions have increasingly turned to outside providers for more and more student aid functions.**

"Anecdotally, we've seen more schools outsourcing, particularly things like default prevention, financial literacy and call centers," said Justin Draeger, president of the National Association of Student Financial Aid Administrators. **"Those have all been growth industries in financial aid for the last several years."**

In response to the increased outsourcing, the Education Department is now looking to get a better handle on those companies, which are known as third-party servicers. Federal law gives the department the authority to **regulate any company or nonprofit organization that contracts with a college to administer "any aspect" of its participation in federal student aid programs.**

The department's reach over outsourced services is "pretty broad and the regulation only provides a few examples," a department official said. "Twenty years ago a lot of the services now being offered didn't even exist."

"We learn of a new type of servicer function weekly, if not daily, it seems," the official added. "Either through a school contacting us, or we read something in the media, or see an advertisement."

Colleges are required to report to the department when they hire a third-party servicer. And the department currently has a database of about 1,400 companies that colleges have reported.

But officials say that database is filled with duplicates and that some colleges have either failed to report the companies they hire or have provided inaccurate information. So, earlier this year, the department decided to ask companies to identify themselves to the department by submitting a form.

Ninety-seven companies responded, according to a list obtained by Inside Higher Ed under a Freedom of Information Act request. The bulk of the companies were involved in default management and student loan counseling. Others, though, provide services to colleges that are relatively new and more expansive than what has traditionally been the type of financial aid processing service subject to the department's reach.

For example, Learning House, which helps colleges set up online education programs, listed itself as a third-party servicer, yet other similar companies didn't. Several lawyers who represent colleges and industry representatives said the department's recent focus on this area has raised questions about whether those types of companies are third-party servicers.

A handful of the companies on the list either declined to discuss the department's increased oversight or did not respond to requests for comment.

Some lawyers who represent colleges and the companies they hire say the department's increased interest in the area has only sowed confusion over who, exactly, falls under the department's regulatory reach. It's not clear, for example, where software providers or cloud computing services fall.

The stakes for companies are high. A company that falls under the Education Department's jurisdiction is required to submit documents. Colleges are also on the hook for any missteps by the companies they hire who are deemed third-party servicers.

In addition to stepping up efforts to keep track of new services that colleges are outsourcing, the department is also more aggressively checking whether colleges' contractors are following federal rules.

The department in September 2013 created a dedicated group in its Kansas City field office to more closely monitor the companies colleges hire for services relating to financial aid.

Regulators in that group have so far opened 12 government audits of whether third-party servicers are following federal rules governing student aid, though none have been finalized yet. Going forward, officials said they're planning to conduct an additional six to eight audits each year. (By contrast, the department conducts about 300 reviews of colleges and universities each year.)

Some industry officials said that the department's new effort is overreaching its authority.

"We still fundamentally believe they're operating outside the scope of the regulations," said Vicki Shipley, senior adviser at the National Council of Higher Education Resources, which represents many companies that provide default management and loan counseling services.