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MyRichUncle, InYourFace

In the highly competitive student loan market, a new lender trying to get a bite at the apple has a couple of options. The safe but slow route is to try to persuade college financial aid directors — who are often gatekeepers to the lenders’ potential customers, the students — to recommend them, formally or informally. With a series of eye-catching full-page ads in *The New York Times* and *USA Today* and a strategy of undercutting other lenders on its base rates for federal student loans, [a new company called MyRichUncle](#) has chosen the alternative route: seeking to win over individual borrowers.

Its approach has attracted some influential advocates, who view the company as an innovative new player that could shake up the student loan market. But MyRichUncle has also alienated a significant number of financial aid officials (not to mention lenders), with language in [its advertising and other marketing materials](#) implying that banks and other providers of student loans have offered “kickbacks or incentives” to get on colleges’ lists of “preferred lenders” and, more generally, that financial aid offices don’t necessarily have students’ best interests at heart.

“You should know the truth about financial aid offices,” an ad in last Sunday’s *New York Times* read. “They’re supposed to help you choose the best lenders. But in reality, they may steer you towards lenders that benefit them. Not you. Unless you check for yourself, how do YOU know you’re getting the best loan?”

Well, that’s one way to grab attention. Not surprisingly, the ads have rubbed many people in the financial aid world the wrong way. The National Association of Student Financial Aid Administrators is planning a formal response to MyRichUncle’s aggressive ad campaign, and is contemplating barring the company from its next annual meeting (MyRichUncle exhibited at NASFAA’s annual conference this month in Seattle and sponsored the opening session). MyRichUncle has even upset some financial aid officers and experts who are intrigued by the company’s philosophy and are otherwise fans.

“I disagree with the tone of their advertising – it takes an unnecessarily negative approach,” says Mark Kantrowitz, publisher of [FinAid.com](#) and a well-regarded expert on student aid. Kantrowitz is an enthusiastic supporter of MyRichUncle over all – he sits on its advisory board, for which he received some stock options – but thinks the company has erred in characterizing arrangements in which colleges receive a share of a lender’s loan volume as kickbacks. “I think they were just frustrated with how slow the process has been” to get the ear of financial aid officers, Kantrowitz said.

MyRichUncle officials, however, show no signs of backing down. “Our ongoing focus on telling consumers to ask questions is something we will not move away from,” says Raza Khan, president and co-founder of MyRichUncle.

A Change in Strategy

MyRichUncle is not exactly a new company, but a renewed one. In the early part of this decade, the company pursued a business based on “education investments,” in which it aimed to provide funds to students in exchange for a fixed share of their future earnings. (Khan and his co-founder, Vishal Garg, say they were inspired to start the company because they saw talented but poor classmates at New York City’s Stuyvesant High School aim high in applying for college but settle for places they could afford.) Under this innovative approach, the company sought to use its founders’ expertise in financial modeling to analyze the likely economic prospects of students. But the company had trouble persuading investors to back the experiment, so MyRichUncle’s founders, put it on the back burner.

They turned instead to the more traditional student loan business, though company officials insist that they have taken anything but a conventional approach to it. “We’ve set out to change this market fundamentally from its core,” says Khan, a former marketing consultant. “We were surprised how the industry had not innovated in any manner whatsoever in several decades.”

Language like that rolls off the tongues of [Khan and Garg](#), a former hedge fund manager, like rain off a roof. With improved technology, a “better model” for assessing whether students are a good investment (focusing less exclusively on student’s credit scores, which tend to be poor, for instance), and by “eliminating inefficiencies,” they say, they can afford to charge a full percentage point less than other lenders on federal loans and as much as 2 percentage points less than most other lenders on private loans.

“This is the first time any educational lender has really competed on price,” says Kantrowitz of [Finaid.org](#), who has been critical of the profits rolled up by student lending giants like Sallie Mae. “With that much fat in the industry, it opens up the possibility for a new small lender coming in and saying, ‘We’re going to undercut you.’ And that can only be good for borrowers.”

Officials at most other student loan companies declined to speak about MyRichUncle, and the few who did said they would do so only if they were not identified. In summary, the lenders challenged MyRichUncle’s suggestion that it was breaking significant new ground, either in taking things other than students’ credit scores into account or in offering price breaks.

Numerous banks and other loan providers lower borrowers’ interest rates after they’ve made their payments for several years, the lenders said, and they noted that MyRichUncle’s lower rate doesn’t kick in while a borrower is in college, and that other aspects of the company’s terms meant that its rates may not be lower for many students. (They also noted that the company is losing money; in reporting its third-quarter earnings in May, MRU Holdings, Inc., MyRichUncle’s parent company, reported a net loss of \$3,359,768.)

More than anything else, though, other lenders, like many financial aid directors, are stunned and disturbed by the nature and tenor of MyRichUncle’s marketing – particularly the company’s decision to promote itself by “firing bullets at your competitors through the bodies of your customers.”

The company’s advertisements suggest that lenders provide a range of benefits and inducements – including revenue sharing, expense paid trips, and other “payola” – to financial aid officers in exchange for a place on their institutions’ lists of preferred lenders. Federal law explicitly prohibits any “illegal inducements” in the federal loan programs, and cash or other gifts are frowned on even in the “alternative” loan market, although accusations of such payments are occasionally made.

Dallas L. Martin, the president of the National Association of Student Financial Aid Administrators, sent a note to its members this week objecting to the company’s advertising, and said a fuller response was planned. “I take real issue with them implying that everybody who has set up a preferred lender list is somehow on the take. It’s just really insulting to our members and to a lot of other lenders who are out there doing business in the right way.”

MyRichUncle does have its supporters among financial aid administrators. Mike Reynolds, director of student financial services at Auburn University, has an “open approach” to the list of lenders it tells students about, and includes MyRichUncle. “My main purpose for being here is to see to it that students achieve their higher education goals, and if this company has a way to do it that might fit into some of my students’ way of doing business, then I’m for it. I want it out there so they can decide.”

He describes MyRichUncle’s aggressive marketing to students as “risky,” noting that when he first heard the company’s nontraditional name, “I didn’t take it too seriously.” But “it may be the best approach,” he says, for a “David taking on Goliath.”

Daniel L. Goyette, director of student financial aid at Marquette University, has also been intrigued by MyRichUncle. Interviewed before the annual meeting this month of the National Association of Student Financial Aid Administrators, Goyette had nice things to say about the company, and said he planned to meet with its officials at the meeting and to encourage his colleagues to give MyRichUncle a close look.

But in an e-mail message after the meeting, Goyette was clearly distressed. He said he couldn’t imagine that “anyone in my profession” wouldn’t be concerned about MyRichUncle’s critical approach. “Bottom line, I think they made a tactical error in so aggressively marketing directly to their potential customers without seeming regard for the perceptions of the aid administrators with whom they will need to work.”

He added: "Time will tell whether or not their approach (or gamble) will cost them business, or will pay dividends."

— [Doug Lederman](#)

The original story and user comments can be viewed online at <http://insidehighered.com/news/2006/07/21/mru>.

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