

# Preferred Lender List:

To PLAY or Not to PLAY



# Disclaimer

The information contained in this presentation is not comprehensive, is subject to change based on additional guidance or directives from the U.S. Department of Education (ED). It serves only as general, background information for further investigation and study related to the subject matter. Nothing in this presentation constitutes or is designed to constitute legal advice.



# Agenda

Selection Criteria for Private Loans

Guidance & Legislation

Preferred Lender Arrangements (PLA)

Lender List Options Review & Discussion

# Private Lender Selection Criteria



# Private Loan Selection Criteria

## Lender Loan Programs Available

- Borrower and/or school eligibility
- Competitive pricing, rates, fees or other terms and conditions
  - Approval rates (percentage by tier)
- Borrower benefits/repayment incentives



# Private Loan Selection Criteria

## Lender Loan Programs Available

### – Special uses

- Previous school charges outstanding
- Application processing after the end of a semester
- Less than ½ time or non-degree seeking programs
- Computer purchase
- Study abroad



# Private Loan Selection Criteria

## Lender Loan Programs Available

- Reputation & track record
- Stability & longevity
- Servicing
- Default rate
- Other borrower benefits



# Private Loan Selection Criteria

## Quality of Lender Customer Service & Support

- Dedicated marketing/service staff
- Toll free number – single point of contact
- User friendly web-based services offered
- Level of automated processing offered
- Technical support offered
- Training offered
- Default management
- Other value-added services





# Private Loan Selection Criteria

## Institutional & Student Financial Aid Office Operational Needs

- Guide and counsel students and their families efforts to achieve their educational potential by removing financial barriers and simplifying process
- Educate students and families through quality consumer information
  - Up to date product information and comparisons to promote wise choices
  - Filter loan products that offer the best combination of value and service



# Private Loan Selection Criteria

## Institutional & Student Financial Aid Office Operational Needs

- Regulatory compliance concerns and control (i.e. HEOA)
- Applications assistance & financial advising for borrowers
  - Application/self-certification methods
  - Toll free number and user friendly website
  - Cosigner requirements
  - Borrower communications



# Private Loan Selection Criteria

## Institutional & Student Financial Aid Office Operational Needs

- Loan certification process
  - Methods (electronic, fax, paper)
  - Delayed certification offered



# Private Loan Selection Criteria

## Institutional & Student Financial Aid Office Operational Needs

- Disbursement options
  - Funding methods (individual check, lender EFT, central disbursing agent)
  - Funding availability & scheduling to meet school preferences
  - Requests for additional/reduced loan amounts & cancellations
  - Refunds/return of funds
- Other institutional needs



# Lender Lists: Previous DOE Guidance

“When we published the final regulations, we expressed our view that a preferred lender list can be an effective tool **to help families** looking for federal student loans to finance the costs of postsecondary education, when the list reflects the school’s unbiased research to identify lenders providing the best combination of services and benefits to borrowers at that school. Additionally, by providing this information, schools may help students and their parents navigate the increasingly complex student loan landscape. Further, we believe that a borrower’s choice of lender may be better informed by preferred lender lists and other consumer information on the federal student loan process, which play a useful role in assisting financial aid administrators in dealing with the large volume of requests for information and assistance, and in informing borrower choice.”

# Regulatory Overview - HEOA

Effective date for DOE requirements – July 1, 2010

## **Key concern:**

Many students obtain private education loans without first taking advantage of less expensive options such as federal loans.

# Regulatory Overview - HEOA

Effective date for DOE requirements – July 1, 2010

## Key Intentions:

- Provide greater transparency.
- Improve the information provided to students regarding cost.
- Ensure students are aware of federal loan options.
- Encourage students to consult with their Financial Aid Office before making education financing decisions to prevent over-borrowing.
- Ensure that schools who enter into a Preferred Lender Arrangement (PLA) do so without prejudice and for the sole benefit of students attending their school
  - Ensure borrower choice of lender
  - Selection based on the best interest of the borrower

# Preferred Lender Arrangement (PLA)





# Preferred Lender Arrangement Overview - Definition

[HEA §151(8); §601.2(b)]

As defined by HEA, a **PLA** exists if both of the following conditions exist:

- A lender provides or issues education loans to students, or the families of such students, attending a covered institution; and
- The covered institution or an institution-affiliated organization recommends, promotes, or endorses the education loan products of the lender

If both of those conditions are met, a PLA exists, *whether or not* the covered institution and the lender entered into a formal agreement.



# Preferred Lender Arrangement Overview - Definition

[HEA §151(8); §601.2(b)]

Any recommendation of a lender (verbally, via website, distributing lender collateral) that is not simply a neutral, comprehensive list of lenders who have lent to students at the school in the past is considered a **PLA**.



# PLA - Institutional Requirements

[HEA §487(h); §601.10(d)(1),(2), (3), (4), & (5)]

- Disclose and enforce code of conduct policy
- Disclose method and criteria for lender selection including reason that each lender was selected (i.e. favorable terms & conditions)
- Provide borrowers at least two unaffiliated choices for private loans
- Provide Truth in Lending Act (TILA) required loan disclosures for each loan program listed\*
  - Lenders required to provide to school by April 1<sup>st</sup>
  - Interest rates, fees, charges, terms and conditions, cost examples, etc.

\*new requirements



# PLA - Institutional Requirements

[HEA §487(h); §601.10(d)(1),(2), (3), (4), & (5)]  
[HEA §487(h); §152(a) §601.10(a)]

- Disclose to borrowers the maximum amount of (free or lower cost) federal grant and loan aid available under Title IV
- Disclosure statement on the list that loan requests will be processed from any eligible lender the student selects and clearly state that borrowers have the option to choose a lender not listed on your preferred lender list
- Provide annual report to the Department of Education\*

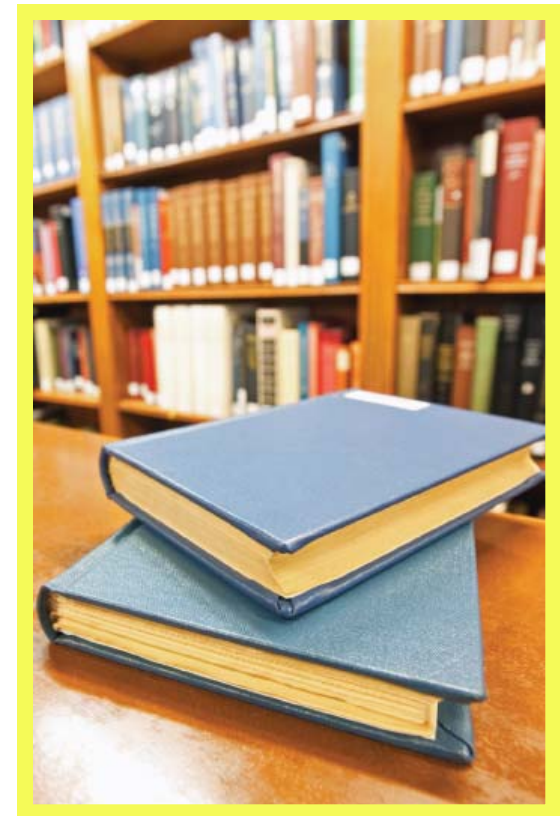
\*new requirements



# Code of Conduct

[HEA §668.14 (b)(27-28)]

- Institutions must develop, publish, administer and enforce a code of conduct with respect to loans made under the Title IV, HEA Loan programs included in Program Participation Agreement (PPA) requirement (includes private loans)
- Preferred Lender Arrangement (PLA) requirement



# Method & Criteria

- Schools must disclose the reasons why the school prefers the lenders included, particularly favorable terms and conditions offered.
- A Request for Information (RFI) and Request for Proposal (RFP) is not required



# Preferred Lender Arrangement

[HEA §487(h); §152(a) §601.10(a)]

## Private education loan disclosures

- If a covered institution or institution-affiliated organization's Website and informational materials address private loans then the following must be disclosed
  - Institution – information listed in TILA section 128(e)(11) for each type of private loan offered under arrangement
  - Affiliated organization – information listed in TILA section 128(e)(1) for each type of private loan offered under arrangement



# Private Loan Disclosures

[§152(a)(1); §601.11]

- Certain information required regardless of if a **PLA** exists





# Private Loan Disclosures

[§152(a)(1); §601.11]

- If school (or school-affiliated organization) provides information about private loans, it must—
  - Include information required under §128(e)(1) of TILA
  - Inform prospective borrower that (s)he may qualify for Title IV loans
  - Inform prospective borrower that the terms and conditions under Title IV loans may be more favorable than the provisions of the private education loan
- School must ensure private loan disclosure is distinct from Title IV loan information



# Private Loan Disclosures

[§152(a)(1); §601.11]

- School must ensure private loan disclosure is distinct from Title IV loan information



# § 601.11 Private education loan disclosures and self-certification form

- (a) A covered institution, or an institution-affiliated organization of such covered institution, that provides information regarding a private education loan from a lender to a prospective borrower must provide private education loan disclosures to the prospective borrower, regardless of whether the covered institution or institution-affiliated organization participates in a preferred lender arrangement.



# § 601.11 Private education loan disclosures and self-certification form

- (b) The private education loan disclosures must—
  - (1) Provide the prospective borrower with the information the Board of Governors of the Federal Reserve System requires to be disclosed under section 128(e)(1) of the Truth in Lending Act (15 U.S.C. 1638(e)(1)) for such loan;
  - (2) Inform the prospective borrower that



# § 601.11 Private education loan disclosures and self-certification form

- (i) The prospective borrower may qualify for loans or other assistance under title IV of the HEA; and
- (ii) The terms and conditions of Title IV, HEA program loans may be more favorable than the provisions of private education loans.

# § 601.11 Private education loan disclosures and self-certification form

- (c) The covered institution or institution-affiliated organization must ensure that information regarding private education loans is presented in such a manner as to be distinct from information regarding Title IV, HEA program loans.



# § 601.11 Private education loan disclosures and self-certification form

- (d) Upon an enrolled or admitted student applicant's request for a private education loan self-certification form, an institution must provide to the applicant, in written or electronic form—
  - (1) The self-certification form for private education loans developed by the Secretary in consultation with the Board of Governors of the Federal Reserve System, to satisfy the requirements of section 128(e)(3) of the Truth in Lending Act (15 U.S.C. 1638(e)(3)); and
  - (2) The information required to complete the form, to the extent the institution possesses such information as specified in 34 CFR 668.14(b)(29).



# Lender Transparency Disclosures

- Lenders are required to clearly communicate loan information in a consistent format, facilitating comparisons between lenders and loan products by April 1 each year.





# Lender Transparency Disclosures

- Disclosures will include the following information:
  - Interest Rates - Low and High
  - Loan Fees
  - Default and Late Payment Charges
  - Repayment Terms
  - Cost Estimates/Examples
  - Eligibility
- In addition to disclosing this to families, schools can use this information in selecting their preferred lenders.



# Lender Transparency Disclosures Required by April 1 Each Year

First ABC Bank  
12345 1st St.  
Anytown, CA 93120  
(800) 555 - 5555

## Loan Interest Rate & Fees

Your starting interest rate will be between

7.375% and 17.375%

After the starting rate is set, your rate will then vary with the market

### Your Starting Interest Rate (upon approval)

The starting interest rate you pay will be determined after you apply. It will be based upon your credit history and other factors (co-signer credit, school type, etc). If approved, we will notify you of the rate you qualify for within the stated range.

### Your Interest Rate during the life of the loan

Your rate is **variable**. This means that your rate could move lower or higher than the rates on this form. The variable rate is based upon the LIBOR Rate (as published in the *Wall Street Journal*). For more information on this rate, see the reference notes.

Although the rate will vary after you are approved, it will **never exceed 25%** (the maximum allowable for this loan).

### Loan Fees

**Application Fee:** \$15. **Origination Fee:** The fees that we charge to make this loan range from 0% to 3% of total loan amount. **Loan Guarantee Fee:** 0% to 3% of total loan amount. **Repayment Fee:** The fees we charge when you begin repayment range from 0% to 3.5% of the total loan amount. **Late Charge:** 5% of the amount of the past due payment, or \$25, whichever is greater. **Returned check charge:** up to \$25.

## Loan Cost Examples

The total amount you will pay for this loan will vary depending upon when you start to repay it. This example provides estimates based upon three (3) different repayment options available to you while enrolled in school.

Repayment Option (while enrolled in school)	Amount Provided (amount provided directly to you or your school)	Interest Rate (highest possible starting rate)	Loan Term (how long you have to pay off the loan)	Total Paid over 20 years (includes associated fees)
<b>1. DEFER PAYMENTS</b> Make no payments while enrolled in school. Interest will be charged and added to your loan.	\$10,000	17.375%	20 years starting <b>after</b> the deferment period	\$81,084
<b>2. PAY ONLY THE INTEREST</b> Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000	17.375%	20 years starting <b>after</b> the deferment period	\$50,707
<b>3. MAKE FULL PAYMENTS</b> Pay both the principal and interest amounts while enrolled in school.	\$10,000	17.375%	20 years starting after your first payment	\$38,180

### About this example

The repayment example assumes that you remain in school for 4 years and have a 6 month grace period before beginning repayment. It is based on the **highest starting rate currently charged** and associated fees. For loan amounts up to \$20,000, repayment will last 20 years, starting once the initial principal payment is made. For loan amounts **more than \$20,000** repayment will last 30 years, starting once the initial principal payment is made.

## Federal Loan Alternatives

Loan program	Current Interest Rates by Program Type	
PERKINS for Students	5% fixed	
STAFFORD for Students	5.6% fixed	Undergraduate subsidized
	6.8% fixed	Undergraduate unsubsidized & Graduate
PLUS for Parents and Graduates / Professional Students	8.5% fixed	Federal Family Education Loan
	7.9% fixed	Federal Direct Loan

You may qualify for Federal education loans.

For additional information, contact your school's financial aid office or the Department of Education at:

[www.federalstudentaid.ed.gov](http://www.federalstudentaid.ed.gov)

## Next Steps

### 1. Find Out About Other Loan Options.

Some schools have school-specific student loan benefits and terms not detailed on this form. Contact your school's financial aid office or visit the Department of Education's web site at: [www.federalstudentaid.ed.gov](http://www.federalstudentaid.ed.gov) for more information about other loans.

### 2. To Apply for this Loan, Complete the Application and the Self-Certification Form.

You may get the certification form from your school's financial aid office. If you are approved for this loan, the loan terms will be available for 30 days (terms will not change during this period, except as permitted by law and the variable interest rate may change based on the market).

## REFERENCE NOTES

### Variable Interest Rate

- This loan has a variable interest rate, that is based on a publicly available index, the London Interbank Offered Rate (LIBOR). Your rate will be calculated each month by adding a margin between 3% and 13% to the LIBOR.
- The rate will not increase more than once a month, but there is no limit on the amount that the rate could increase at one time.

### Co-signers

- Rates are typically higher without a co-signer.
- Must be 18 years or older at the time of loan application.

### Bankruptcy Limitations

- If you file for bankruptcy you may still be required to pay back this loan.

### Eligibility Criteria

#### Borrower

- Must be enrolled at an eligible school at least half-time.
- Must be 18 years or older at the time you apply.

More information about loan eligibility and repayment deferral or forbearance options is available in your loan application and loan agreement.

# Preferred Lender Arrangements

[HEA §153(c)(2)(A); §601.20(a) & (b)]

- Annual report to ED
  - Detailed explanation of reason for PLA
  - Include terms, conditions, and provisions that made the loan beneficial to students
  - Must be made available to public and students



# School Options for Private Loan Information



# School Options for Private Lender List

- No lender list
- List all lenders
- Third party list
- Preferred lender arrangement (PLA)



## Option 1

# NO Lender List – "Let the buyer beware"

## Considerations:

- How is this policy communicated to borrowers?
- What can be communicated to borrowers?  
(Brochures? Website? Mailings? Orientations?  
Staff contact?)
- How do you answer questions from borrowers  
and families?
- How do borrowers seek and find lenders?



## Option 1

# NO Lender List – "Let the buyer beware"

## Considerations:

- Are the lenders being selected using streamlined, electronic process that matches your needs?
- Are borrowers and families getting enough good consumer information to make an informed decision?



## Option 2

# Comprehensive Lender List

### Considerations:

- Is there a certain time period required for loans made to be on this list?
- Are borrowers required to borrow from lenders on a comprehensive list?
- Is it permissible to leave any lenders off a comprehensive list?
- Can new lenders/loan programs be added to a comprehensive list?



## Option 2

# Comprehensive Lender List

### Considerations:

- Can you also provide a comparison of terms and conditions offered?
- Are private loan disclosures required? If so, to whom and how are they provided?
- How do you handle questions from borrowers and families?
- Are borrowers and families getting enough good consumer information to make an informed decision?

## Option 2

# Comprehensive Lender List

- Schools can provide neutral, comprehensive list of lenders from certain period of time (e.g., 3-5 years)
- Must provide clear statement that borrower can borrow from any lender
- May provide terms and conditions of loans offered by lenders
- If schools leaves some lenders off, PLL requirements triggered
  - School can remove lenders who have left program



## Option 2

# Comprehensive Lender List

Any recommendation of a lender (verbally, via website, distributing lender collateral) that is not simply a neutral, comprehensive list of lenders who have lent to students at the school in the past is considered a **PLA**.



## Option 3

# Third-Party Websites

### Considerations:

- What are the conditions under which you can refer borrowers to a 3<sup>rd</sup> party website?
- How do you know if lenders are paying for placement on 3<sup>rd</sup> party lists or participating in revenue sharing?
- Who is responsible for compliance?
- Is lender advertising accepted by the site?
- Are all of your previous and/or local lenders on the list?
  - Can your lenders be added?

## Option 3

# Third-Party Websites

### Considerations:

- Are there too many lenders listed?
- Can financial aid associations provide 3<sup>rd</sup> party lender lists?
- How are the private loan disclosures provided to borrowers?
- Are all of the 3<sup>rd</sup> party loan programs available to your borrowers?
- Are borrowers and families getting enough good consumer information to make an informed decision?

## Option 3

# Third-Party Websites

“[Not a **PLA**] as long as the institution ensures that the listing is broad in scope, does not endorse or recommend any of the lenders on the list and the lenders on the list do not pay the third party entity to be placed on the list or pay the third party entity a fee based on any loan volume generated.”



## Option 4

# Preferred Lender Arrangement

### Considerations:

- Do you want to issue a Request for Information (RFI) or Request for Proposal (RFP) Required?
- What method and criteria do you use to determine lenders and how do you disclose this information?
  - Loan program criteria?
  - Quality of service and support?
  - Speed and efficiency of processing?

## Option 4

# Preferred Lender Arrangement

### Considerations:

- Do you survey existing private loan borrowers?
- How are the private loan disclosures provided to borrowers?
- Are borrowers and families getting enough good consumer information to make an informed decision?



# PLA - Institutional Requirements

[HEA §487(h); §601.10(d)(1),(2), (3), (4), & (5)]

- Disclose and enforce code of conduct policy
- Disclose method and criteria for lender selection including reason that each lender was selected (i.e. favorable terms & conditions)
- Provide borrowers at least two unaffiliated choices for private loans



# PLA - Institutional Requirements

[HEA §487(h); §601.10(d)(1),(2), (3), (4), & (5)]

- Provide Truth in Lending Act (TILA) required loan disclosures for each loan program listed\*
  - Lenders required to provide to school by April 1<sup>st</sup>
  - Interest rates, fees, charges, terms and conditions, cost examples, etc.

\*new requirements



# PLA - Institutional Requirements

[HEA §487(h); §601.10(d)(1),(2), (3), (4), & (5)]

- Disclose to borrowers the maximum amount of (free or lower cost) federal grant and loan aid available under Title IV
- Disclosure statement on the list that loan requests will be processed from any eligible lender the student selects and clearly state that borrowers have the option to choose a lender not listed on your preferred lender list



# PLA - Institutional Requirements

[HEA §487(h); §601.10(d)(1),(2), (3), (4), & (5)]

- Disclosure statement on the list that loan requests will be processed from any eligible lender the student selects and clearly state that borrowers have the option to choose a lender not listed on your preferred lender list
- Provide annual report to the Department of Education\*

\*new requirements



# General Evaluation of Your School Lender List Options

School Lender List Option Criteria	No Lender List	List All Lenders	3rd Party Lender List	Preferred Lender List
<b>Consider a Preferred Lender Arrangement</b>	No	No	Maybe	Yes
<b>Which option is in the best interest of our borrowers &amp; families?</b>				
<b>Provide loan data/comparisons to promote wise choices?</b>	No	Ok if done for all	?	School preference
<b>Lender and Loan programs available:</b>				
<b>Number available to choose from?</b> (Short list? Long List? Sorting?)	Universe	All from 3-5 years	3rd Party	School preference
<b>Is your borrower and/or institution eligible?</b> (Prop? 2 yr? LT 1/2? Past charges?)	?	?	?	School preference
<b>Customer service experience?</b> (Toll free number? Internet info?)	NA	NA	?	School preference
<b>Streamlined application and processing systems</b> (Level of automated service)	NA	NA	?	School preference
<b>Which option meets our operational needs &amp; constraints?</b>				
<b>Front end efforts of lender selection:</b>				
<b>Lender Evaluation</b> (Google? Reports? 3rd Party Review? Lender Review?)	None	Loan history	3rd Party? (PLA?)	School preference
<b>Lender Disclosure</b> (How Provided by lender? How to make available to borrowers?)	No	Yes	?	Yes
<b>Back end efforts required for customer service, processing and compliance:</b>				
<b>Guiding &amp; Counseling</b> (Website? Collateral? Orientations? Staff? Recommend?)	None	None	Yes if PLA	Yes
<b>Financial Aid Management Systems (FAMS) requirements</b>	?	?	?	?
<b>Certification method</b> (Paper? Fax? Electronic? Centralized system?)	?	?	?	School preference
<b>Disbursement options</b> (Paper check? EFT? Central Disbursing Agent?)	?	?	?	School preference
<b>Loan Changes/Adjustments</b> (Paper? Fax? Electronic? Centralized system?)	?	?	?	School preference
<b>Annual Reporting</b> (Reasons for PLA? Loan program disclosures? Method TBD?)	No	No	Yes if PLA	Yes

# Thank You!

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