

# Private Loans and Ways To Recommend Lenders

Presented by:  
Pennsylvania Education Lenders Association

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## What is PELA?

- **Pennsylvania Education Lenders Association**
- Active membership in PELA is institutional rather than individual. Each active member institution has one vote assuring equal representation among PELA member institutions.
- Active membership is open to all lending institutions and servicing institutions who provide student loans in PA.

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## PELA's Mission

- PELA provides leadership in promoting the success of the education loan programs offered in PA by:
  - establishing and maintaining an active partnership among all program participants
  - providing a forum for the discussion and resolution of education loan issues and
  - facilitating dialog

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## Private Loans

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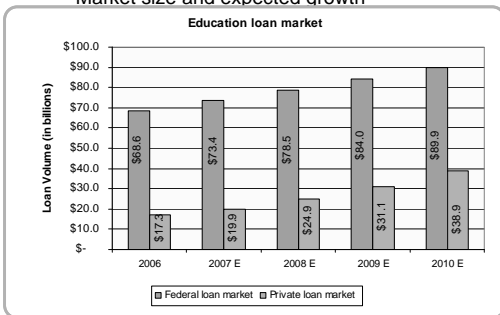
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## Private Loans

Market size and expected growth



Private loan data is for certified products only.  
 Source: College Board – Trends in Student Aid 2006. Federal and Private loan estimated growth rate of 8% and 25%, respectively.

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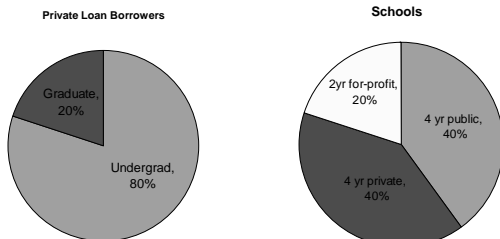
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## Private Loans

- Who takes out private loans?



- Over 77% of private loan borrowers also have federal loans.

Source: American Council on Education – ACE issue Brief August 2007

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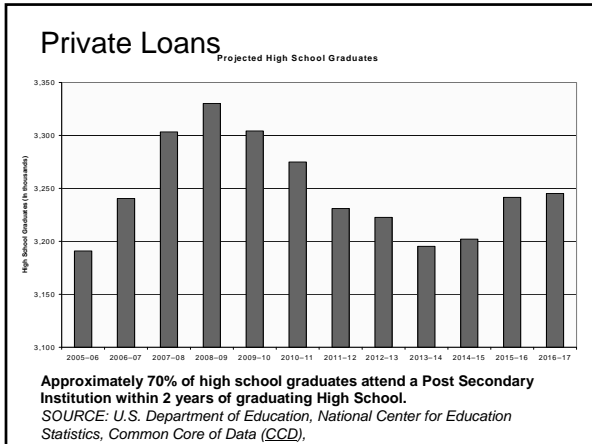
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### Private Loans

### Private Loans

– Two different types:

- School certified
- Direct to consumer (DTC)

What is the difference?

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### Private Loans

School certified:

- Borrower applies directly with lender
- Once borrower is approved, lender requests certification from the school
- School certifies the loan and provides such information as:
  - borrower enrollment status
  - amount borrower is eligible to borrow
  - disbursement dates
- Loan funds are disbursed directly to the school
  - funds are put into the Student Account

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## Private Loans

### Direct to Consumer:

- Borrower applies directly with lender
- Once approved, borrower provides proof of enrollment (i.e., copy of student bill)
- Loan funds are disbursed directly to borrower
- Borrower can use funds for education related expenses

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## PLUS vs. Private

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## PLUS vs. Private

- There are advantages and disadvantages to each type of program; the key is to decide which is best suited to the family's financial circumstances
- PLUS - Federal program with fixed interest rate
- Private - variable rate; terms vary from lender to lender
- Which do you counsel first and why?

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## PLUS loans

- PLUS Loans are federally insured and are discharged in the event of total and permanent disability or death.
- Eligibility is not based upon income, financial need or a debt-to-income ratio, and there is only a minimal credit check review.
- The PLUS Master Promissory Note is good for 10 years – no need to sign a new note!
- PLUS offers unemployment and economic hardship deferments.
- Many different repayment options are available.
- No loan limits – borrow up to the cost of education less financial aid received

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## Private Loans

- Not federally insured and does not offer discharge in the event of total and permanent disability or death.
- Have variable rates that are reset quarterly and most have a high interest rate cap.
- Comprehensive credit check required.
- Borrowers may have to meet minimum income and debt-to-income ratio requirements; varies by lender.
- Must re-apply each year for additional funds.
- No deferment during unemployment or economic hardships. If qualified, student may apply for a forbearance.
- Private loans have aggregate loan limits and most have annual loan limits.

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## Life After the “Wrap”

What are your options?

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## Options

### Types of Lender Lists:

- Traditional Lender Lists
  - Lenders listed with benefits outlined in bullet points either on paper or on your school's website
  
- Online Comparison Tools
  - More in-depth information
  - APR
  - Cost of loan

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## Options

- Decision:
  - Based on student audience
  - Detail provided
  - Ability to change information readily

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## Who Can Provide

- Schools:
  - Can create and host lender list
  - Full responsibility rests with school
  
- Guarantors
  
- Third Party Service Providers

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## Evaluate

- Determine how much control school actually has with outside providers
- Determine if any strings are attached – check what a third-party provider requires

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## Evaluate

- Information Displayed:
  - What do you want to list
  - Determine what is best for school population
  - Make sure it is written in language that students and families will understand!

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## Evaluate

- Functionality:
  - Static Web Pages:
    - Is it just a list?
    - Can student only apply or can more information be gathered in more detail?
  - Can you or your students sort the information by function – APR; Benefits?

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## Evaluate

- Flexibility/Customization
  - How flexible is the page itself?
  - Does borrower choice reflect in the information provided?
  - Can you customize instructions, details?

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## Evaluate

- Set Up/Update Process
  - How long does it take to set up?
  - Do you have appropriate staff to do this?
  - Is this something that your IT staff can do?
  - Will your IT staff understand the page sufficiently to make it work for you and your students?

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## Evaluate

- Advantage – Internal Developed Pages:
  - You control
  - You create content
  - You understand the process

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## Evaluate

- Disadvantage – Internal Developed Pages
  - You must update
  - You must take time to review periodically
  - You must make certain that information is displayed properly

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## Staying Out of Trouble

- Three unaffiliated lenders
- Borrower choice statement
- Lender selection criteria

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## Staying Out of Trouble

- Disclose the tools' provider
- Review Federal Regulations – July 1, 2008
  - Department of Education reporting requirements
  - Disclosure to students
  - Update lender list at least annually

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Real life stories

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