



# Preferred Lender Arrangements - *As a Financial Aid Administrator what can I say?*

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# Overview

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Private loans have drastically changed in the past ten years – and so have the rules around what a Financial Aid Administrator (FAA) can say.

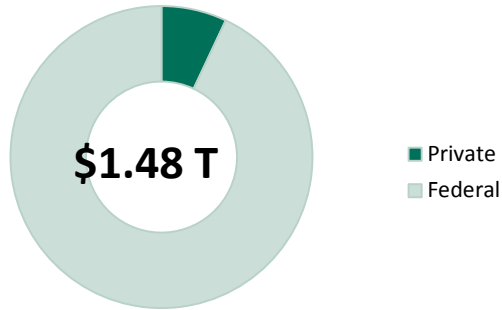
Private loans – commonly referred to as alternative loans in the past - used to be considered the wild west of student lending. However, since the elimination of the Federal Family Education Loan Program (FFELP) in 2010, private lenders have become increasingly competitive with Direct Loans. Loan forgiveness, competitive fixed and variable rates, borrower benefits, zero origination fees, and more are all reasons for your borrowers to explore.

But – As a FAA, what can you say?

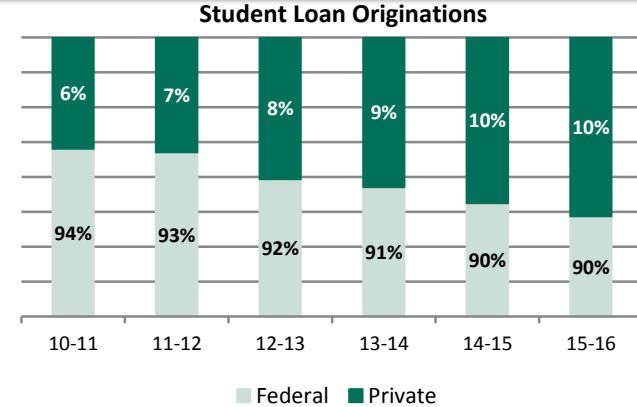
# The Private student lending market continues to evolve

## Federal student loans continue to dominate the market

44.2 million Americans with student loan debt



## The Private student loan market has increased in recent years



The number of lenders offering Private student loans has increased, so the market has become more competitive...in addition, there's been improvements to Private student loans – good news for borrowers!

- ✓ Greater variety of products, rates, and terms
- ✓ Promotion of responsible borrowing
- ✓ Clearer disclosures
- ✓ Competitive low rates
- ✓ Ease of process
- ✓ More benefits for borrowers in most instances
- ✓ Many options without origination fees

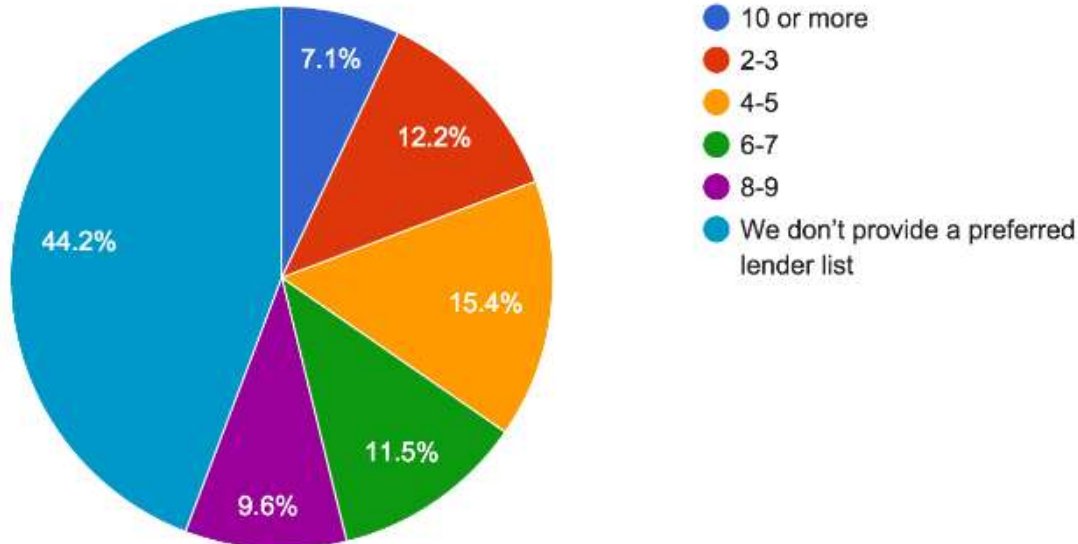
<https://studentloanhero.com/student-loan-debt-statistics/>, <http://trends.collegeboard.org/student-aid/notes-sources>

# NASFAA Poll

[https://www.nasfaa.org/news-item/7335/Your\\_Thoughts\\_Preferred\\_Lender\\_Lists](https://www.nasfaa.org/news-item/7335/Your_Thoughts_Preferred_Lender_Lists)



**How many private education loan lenders do you include on your preferred lender list?**



(156  
responses)

# NASFAA Poll Comments

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- I coordinate the RFI for our entire system, which has a quarter million students. We send out the RFI every other year and develop lists for different subsets of students (undergraduate, graduate business, bar study, etc.) **It's somewhat complicated but a worthwhile service for the number of students we serve.**
- Our school struggled between not wanting to encourage unnecessary borrowing and wanting to provide information to students. In the end, the student service benefit outweighed everything else. Our tuition is high enough that we have many students who do need a private loan; we also have a large international student population who often rely on some loan funding in combination with whatever their family is providing. We had many students every semester who were asking about how to get a private loan, what lenders offered educational loans, etc. Similar to Eric A., **we decided it was better to at least point the student in the direction of potential lenders so they have a place to start instead of having students be confused, frustrated, late paying their bill, etc.**
- We review our list every two years. I've found the RFP process is not too terribly taxing, though this will be the first year I lead this process. It's worth it for our particular student body. We've utilized FastChoice for all necessary disclosures and consumer information. I agree with David S.--even though I was not in financial aid when everything changed, the resulting **actions seemed extreme and not very student-centered.**
- My school does not provide a preferred lender list for private loans, but instead refers families to a third party search engine to compare loan terms. **With current demands on staff, keeping up with the rfp process for a preferred lender list is too time consuming to enact.**

# (More) NASFAA Poll Comments



- We do not use one because **we do not want to promote the use of private loans and over- borrowing.**
- My school has 4 of them, undergrad, grad, domestic, int'l. But while what happened in the lender list scandal years ago was 1000% wrong, the reaction was throwing the baby out with the bathwater. I understand why some schools avoid lender lists, but in the absence of one, students and parents have to rely on less reliable, more biased info, including direct-to-consumer marketing, and anyone who has had a kid in or bound for college can attest to that. I did an article some years back for the NASFAA Transcript on DTC marketing of student loans, and unearthed lots of bad behavior by lenders, including advice to avoid doing a FAFSA and loans that don't require school certification, thereby allowing students to borrow in excess of the COA, sometimes way more.
- **Our university does not provide a preferred lender list due to the federal requirements associated with such a list.** We do counsel students on differences between Stafford and private loans.
- **It helps our students have a starting point for a confusing process of finding adequate lenders.**
- My school does use one. The reason is because we look to lenders who provide the **best in service, repayment, interest rates, customer satisfaction, are ELM and NDN participants so we have a streamlined process.** We have six on our preferred lender list.

# Excerpts from NASFAA Monograph

## June 2009, number 23

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- Developing a systematic and equitable method for selecting lenders for a school's list can help borrowers and schools in many ways. **Competition among lenders can motivate them to (1) improve the overall quality of their products and services, helping schools provide borrowers with the best and most efficient service possible, and (2) give borrowers the best options from which to choose possible lending arrangements.**
- **Borrower benefits** must be the most important consideration in the selection of lenders for a school's lender list.
- **As the use of private student loans continues to grow, helping families to evaluate these programs becomes increasingly important.**
- At the school level, planning and preparation efforts should include at least two phases: **(1) identifying student needs and expectations; and (2) identifying office operational needs.**

# Excerpt from Dear Colleague

## GEN-08-06

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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.



# Historical Lists



- From Dear Colleague GEN-08-06

attendance at that institution. Similarly, a school that wants to provide basic information to the school's students and their parents may provide a comprehensive list of lenders that have made loans to the school's students or parents in the past three to five years (or some other period) and that have indicated that they would continue to make such loans. The school should not provide any additional information about the lender, including, for example, the percentage of the school's loans made by the lender. **The school must provide a clear statement that a borrower can choose to use any FFEL lender.**

# Historical Lists

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- Federal regs do not describe detailed methodology
- Must be comprehensive
- What constitutes “historical”?
  - A certain number or dollar volume of loan apps?
  - A certain number or dollar volume of loan disbursements?
  - A certain number of loan servicing experiences?
- Feds have stated that a list of ***all*** lenders that have been used previously by other students at your school is not a preferred/recommended list.

# Historical Lists

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- If you don't include ***all*** historical lenders, though, does that make it a preferred/recommended list? (i.e., we prefer lenders with a ***certain minimum length or type*** of history at our school)
- NASFAA Monograph #23 from June of 2009 mentions looking at historical lenders as a ***starting point*** for creating a preferred/recommended list.
- Lenders must remain on the list even if the school receives negative reports from borrowers? If you remove a lender, do you now have a preferred/recommended list?
- Does list order matter?

# What is a Preferred Lender Arrangement (PLA)?

An **arrangement** or **agreement**, between a **lender** and covered institution, in which a lender provides education loans to students and families and the covered institution recommends, promotes or endorses the education loan products of the lender



## A preferred lender agreement

- ✓ Includes arrangements between a lender and an institution-affiliated organization
- ✓ Includes some lenders and excludes others

## NOT a preferred lender agreement

- ✗ Involves the Direct Loan Program or loans originated through Federal PLUS auction pilot program
- ✗ Private loans by the school that are funded by the institution or organization or by donor-directed contributions, made under Title VIII or Title VIII of the Public Service Health Act
- ✗ Private loans made under a State-funded financial aid program if the borrower has a forgiveness option based on public service
- ✗ Provides borrowers with a neutral, comprehensive list of private education lenders that have made loans within a 3-5 year time period and a statement that borrower can choose any lender
- ✗ Broad in scope
- ✗ Does not endorse or recommend any of the lenders on the list

# How will my institution benefit from a PLA?



## BE A TRUSTED SOURCE

Provide transparency on costs, allow families the opportunity to make good choices and encourage smart shopping

## LESSEN CONFUSION AND FRUSTRATION

Ultimately, borrowers may choose a less favorable loan option just to get the process “over with” and thus choose poorly

## EASE COUNSELING

A list allows consideration of factors such as customer service, technology, lender reputation and default initiatives when considering lenders. Limited questions will be asked due to familiarity with fewer options

## INCREASE EFFICIENCY

By providing federal loan information first, followed by a list of financing options, you can shorten research and reduce stress

PLA makes it easy for students and parents to compare lenders



# The HEOA private loan disclosure requirements support the interest of borrowers



**New HEOA institutional and private loan disclosures and requirements ensure:**

**An informed  
student loan  
borrower**



**Borrower choice  
of lender**



**Transparency and high  
ethical standards in the  
student lending process**



**Selection of preferred lender  
based on best interest of  
borrowers**



## **LENDERS PROMOTE RESPONSIBLE BORROWING**

- Underwriting practices that could potentially help avoid “over-borrowing”
- Encourages school certification
- Choice of rates and terms within the application to increase transparency
- Offering Financial Literacy Education and Debt Counseling tools

## **PROVIDE DISCLOSURES**

- Due to federal regulations, lenders are required to provide every potential borrower with disclosure information before they apply for a private student loan
- It is important for borrowers to understand all of the terms associated with a private student loan
- Lenders make disclosures available on their website

# Sample Selection Criteria



- Available Interest rates
- Fee structure
- Repayment options
- Deferrals/Forbearances
- Are loans sold?
- Forgiveness opportunities
- Co-signer release
- Dedicated customer service
- Consolidation/Re-Fi

- Customer service track record
- Long history in education lending
- Smooth, efficient processes
- Borrower benefits
- Credit check specifics
- Average interest rates received
- Loan limits
- Others?

# PLA Requirements

Institution's preferred lender list must contain NO less than 2 unaffiliated private education loan lenders



## PLA List Requirements - clearly and fully disclose for each lender:

- Access to TILA Disclosures provided by the lender
- Reasons institution includes lenders on list
- The method and criteria (favorable to the borrower) used to choose lenders
- That the borrower does not have to borrow from a lender on the list
- Identify each lender as an affiliate of another lender on the list
- Lender's name is displayed in all information and documentation related to the loan

**Schools or affiliates participating in a PLA must disclose on its website and all *informational materials* (publications, mailings, electronic messages or materials distributed to current or prospective students and families that discuss available financial aid opportunities):**

- The maximum amount of Title IV grant and loan aid available to students
- Information on the lender's TILA disclosure form for each type of loan offered under a PLA to its students and families

*Disclosures must be provided annually for each type of private education loan offered pursuant to a PLA for consideration before a student borrows*



# Additional PLA Requirements

## COMPLY WITH BORROWERS' CHOICE & LOAN CERTIFICATION

- Institutions **may NOT deny or impede the borrower's choice of a lender**
- Institutions **may NOT cause unnecessary delay in loan certification** for borrowers who choose a lender not on the list

## DEVELOP AND ADHERE TO A CODE OF CONDUCT

- Institutions must **develop a Code of Conduct** with respect to private education loans with which the institution's agents comply.
- **Code must:**
  - Prohibit conflicts of interest, revenue sharing arrangements, receiving of gifts, consulting arrangements between institution's agents and lenders, advisory board compensation, staffing assistance, offers of funds, etc.
  - be **published prominently** on its **website**
  - be administered & enforced, requiring all the institutions agents to be **annually informed of the code's provisions.**

## PROPER USE OF NAME, LOGO, EMBLEM, ETC.

- **Can NOT agree to the lender's use of:**
  - the **name**
  - **emblem**
  - **mascot**
  - **logo** of the institution or affiliate
  - **pictures**
  - **words**
  - **symbols...** identified with the institution or affiliate **in the marketing of private education loans** in a way that implies the loan is offered or made by the institution or affiliate

## PREPARE AND SUBMIT A PLA ANNUAL REPORT

- Submit to the Department of Education (ED) an **Annual Report** that includes **for each lender in their PLA:**
  - **disclosures** provided on institution's preferred lender list
  - detailed reasons **why entity participates in a PLA with each private education lender**, including why terms and conditions of each loan provided pursuant to a PLA are **beneficial to borrowers**
- Ensure the report is made available to the public, including current and prospective borrowers

# Why Private student loans?

Students should seek to maximize grants, scholarships and consider most federal loans, before taking out a private student loan!



**Private student loans**  
offer an opportunity to close the gap between  
federal aid, grants and scholarships

## Unlike some other sources of funds, private student loans may offer...

- ☐ The ability to reduce overall finance charges... good credit generally results in lower percentage interest rates
- ☐ Variety of rates and terms that fit the borrower's repayment plan
- ☐ Ability to pay for past-due balances
- ☐ Satisfactory academic progress is not always required
- ☐ Generous loan limits

# How do I choose my lenders?



## Use a fair and consistent method to research lenders

- Institutions are not required to do a formal Request for Information (RFI) or Request for Proposal (RFP)
- A simple question is acceptable
- Most lenders have responses on hand to meet your need



## Identify what criteria are important to your students/families

- Criteria to consider: interest rates, fees, borrower benefits, borrowing limits, repayment options, customer service standards, etc.



## Consider a lender's reputation history in their industry

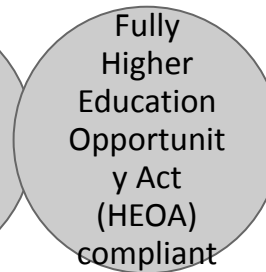
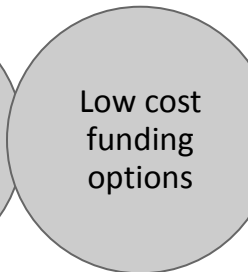
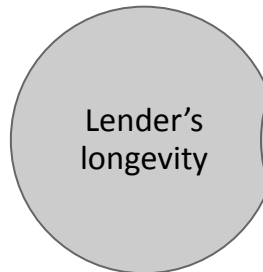
- Consider customer service history with lenders (approval rates, weighted average interest rates), financial strength, ability to quickly address issues



## Create a web page listing your lenders

- List your lenders and their loan features in a way that allows applications to easily be compared

## Some other considerations...



# There's a variety of Private student lending options

## OFFERINGS

### STUDENT LOANS

- Parent
- Undergraduate/Graduate
- Residency & Bar
- Professional Certificate

**REFINANCE** – *private and federal loans; ability to refinance multiple times and loans*

- Student Loans
- Student Loans for Parents

### STUDENT

- Co-signer option

### PARENT/SPONSOR

- No student indebtedness
- Typically no origination fees
- Some options have lower rates than Federal rates
- Certified or non-certified
- Sponsor allowed in some cases

**FIXED** - Same interest rate; constant monthly payment

**VARIABLE** – Varying interest rate based on tied index; varying monthly payment

- Generally lower rate to start

#### Co-signer option

- May be required if borrowers have little/no credit history or income
- Often times leads to a better interest rate
- Co-signer need not be a relative

## BORROWER

## RATES

## BENEFITS

### PRIVATE LENDERS MAY OFFER ANY COMBINATION OF THE FOLLOWING BENEFITS:

- Deferment options
- Co-signer release
- Forbearance options
- Multi-year approval
- Repayment options that borrowers can select (repayment length and rate type)
- No prepayment penalties
- Discounts for loyalty, automatic payments, or good academic standing
- Student death or permanent disability forgiveness

# Private student loan eligibility requirements vary by lender

## Lenders may require that borrowers...



Meet certain enrollment criteria



Meet Satisfactory Academic Progress (SAP)



Be a U.S. Citizen or permanent resident



Have good credit or have a qualified co-signer



Attain the age of majority in their state of residence

## Lenders may request documents for approval...

### INCOME

- Verification of stated income
- Minimum income requirements
- Self-employment income

### EMPLOYMENT HISTORY

- Length of time with current employer (or in a specific field)
- Document current employment

### DEBT-TO-INCOME (DTI) RATIO CALCULATION

- DTI = monthly household liabilities/monthly household income
- Includes recurring debt – credit cards (minimum monthly payment), mortgage (principle interest, insurance and taxes), student loans, etc.
- Does not include groceries, gas, utilities, rent
  - Ex: \$3,500 monthly bills/ \$10,000 gross monthly income = 35% DTI

If requirements aren't met, the borrower may be able to apply with an eligible and creditworthy co-signer

## Help borrowers with the application process...



Encourage that applications be complete and accurate



Where possible, borrowers should use eSign and sign/complete all necessary documentation (Self Certification, Approval Disclosures and Promissory Note)

# Encourage borrowers to know their credit score and history

## Understand what a credit report and credit score really is...

### CREDIT REPORT

- **Historical information** (typically over a rolling 7-years) that helps potential lenders understand how credit worthy an applicant is
  - Includes: address(es), employment history, changes to borrower's name, how borrowers pay bills, duration of credit accounts, etc.
- **Information is collected and monitored** by independent companies, called **credit bureaus**
  - Equifax, TransUnion, Experian, etc.

### CREDIT SCORE

- **Number** derived by **calculations run by each of the credit bureaus**
- Sort of a '**rating system**' that gives a **general idea on how well borrowers manage finances**
- Most widely used credit scores are **FICO® scores**
  - Range from 300 – 850 points

## How you can help your borrowers...



### LIMIT FEES

- **Borrowers should NOT pay for credit reports**



### STAY INFORMED

- **Borrowers may request a credit report from a different agency every 4 months.** (For example, request an Equifax credit report in January, an Experian credit report in April, and a TransUnion credit report in August.)
- **Lenders may create scoring models with different factors and percentages.**
- **Encourage them to read the fine print**



### ENSURE ACCURACY / UNDERSTAND IMPROVEMENTS NEEDED

- **If a borrower is denied credit, he/she is entitled to a copy of their credit report**

FICO is a registered trademark of Fair Isaac Corporation in the United States and other countries.

# Third Party Lender Lists

Actions that recommend, promote or endorse a lender's student loan product trigger the PLA requirements

Neutral lender and product comparison

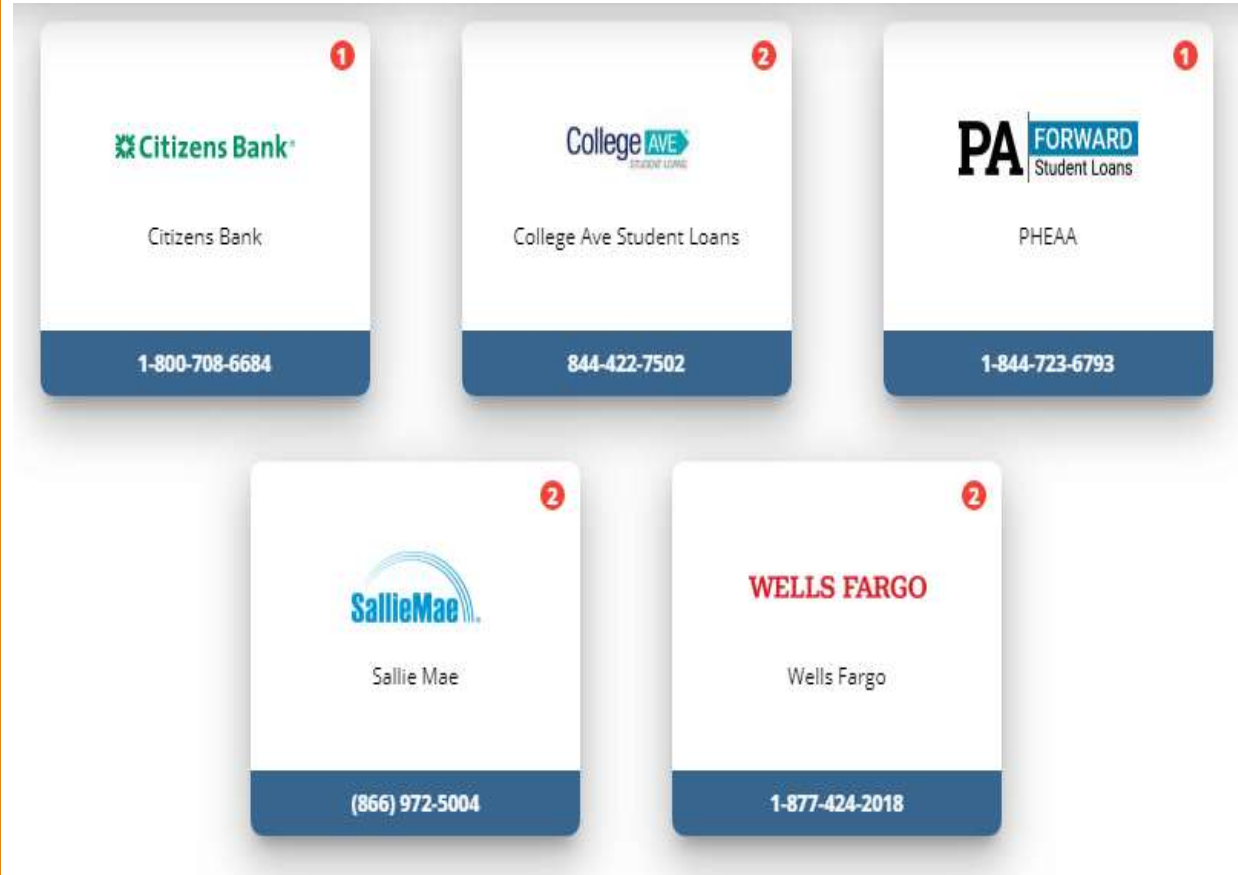
Ability for school customization and choice

Compare results of multiple lenders















# ELMSelect Student View







# FastChoice Student View

|   |   |   |
|---|---|---|
| <br>show<br>summary  |    | <b>Citizens Bank</b><br><input type="checkbox"/> Citizens Bank Parent or Sponsor Loan ( Fixed and Variable) ⓘ   |
| <br>show<br>summary  |   | <b>New Jersey Higher Ed Assistance Authority</b><br><input type="checkbox"/> NJCLASS Fixed ⓘ  |
| <br>show<br>summary  |   | <b>PHEAA</b><br><input type="checkbox"/> PA Forward Parent Loan ⓘ   |
| <br>show<br>summary  |   | <b>Sallie Mae</b><br><input type="checkbox"/> Sallie Mae Parent Loan (Variable Rate) ⓘ<br><input type="checkbox"/> Sallie Mae Parent Loan (Fixed Rate) ⓘ  |
| <br>show<br>summary |  | <b>Wells Fargo</b><br><input type="checkbox"/> Wells Fargo Student Loan for Parents (Fixed or Variable Rate) ⓘ<br><input type="checkbox"/> Wells Fargo Student Loan for Parents Fixed ⓘ<br><input type="checkbox"/> Wells Fargo Student Loan for Parents Variable ⓘ |

# The Higher Education Opportunity Act (HEOA)

Private Education Loan disclosures and requirements subject to regulation by the U.S. Department of Education / Federal Reserve Board



Dear Colleague (DCL – GEN -08-12)

Reauthorized the Higher Education Opportunity Act (HEOA)

New Disclosure Requirements ensuring transparency

Amended Truth in Lending Act (TILA) and established new private education loan disclosures

Prohibited certain education lending practices

Refer to Title 34 Code of Federal Regulations, part 601 of the Federal Register for further details

# Resources

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- 34CFR601.10
- 34CFR601.11
- Federal Student Aid Handbook, School Eligibility
- Dear Colleague Letter GEN-08-06
- NASFAA Monograph 23 of June 2009
- FSA Preferred Lender List Assessment Activity



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# Thank You For Your Time

## *Questions or Feedback?*