

Managing Your Preferred Lender List

Panelists

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Overview... The beginning

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

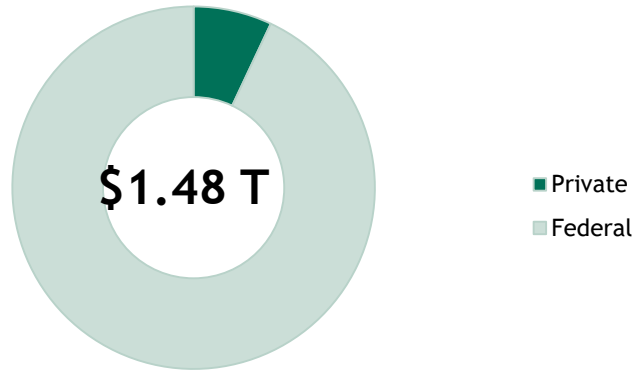
Private loans - commonly referred to as alternative loans in the past - used to be considered the wild west of student lending. However, since the elimination of the Federal Family Education Loan Program (FFELP) in 2010, private lenders have become increasingly competitive with Direct Loans. Loan forgiveness, 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 continued to evolve

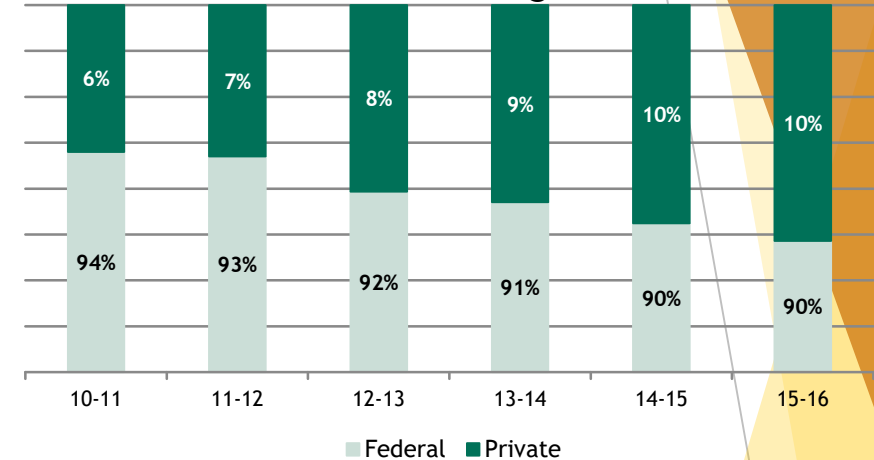
Federal student loans continue to dominate the market

44.2 million Americans with student loan debt



The Private student loan market has increased in recent years

Student Loan Originations



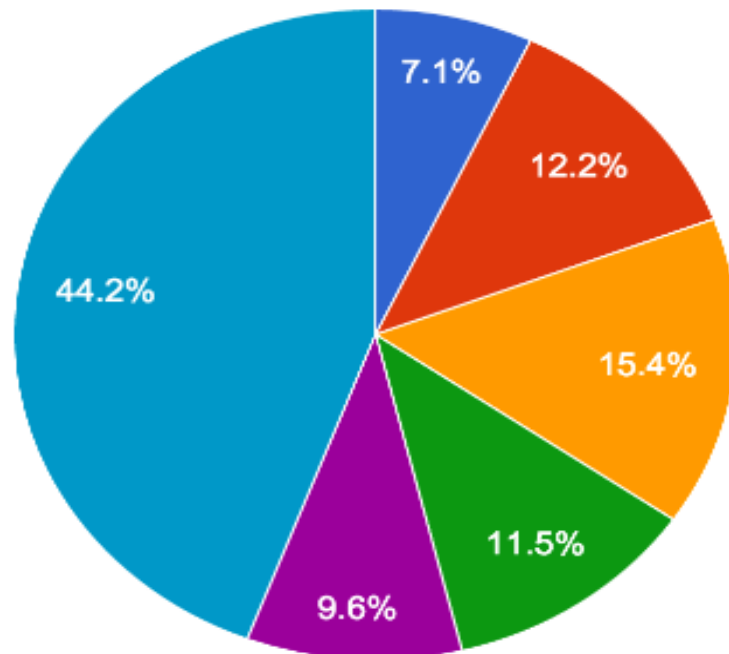
The number of lenders offering Private student loans has increased, so the market has become more competitive...in addition, there's been improvements to Private student loans - good news for borrowers!

- ✓ 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

NASFAA Poll

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?



- 10 or more
- 2-3
- 4-5
- 6-7
- 8-9
- We don't provide a preferred lender list

(156 responses)

NASFAA Poll Comments

- 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

- My school has 4 of them, undergrad, grad, domestic, int'l. **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.
- **It helps our students have a starting point for a confusing process of finding adequate lenders.**
- My school does use one. 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

- 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

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 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 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

- 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.

Ref: Dear Colleague Letter Gen 08-06

Historical Lists

Q: 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)

A: NASFAA Monograph #23 from June of 2009 mentions looking at historical lenders as a *starting point* for creating a preferred/recommended list.

Q: Does list order matter?

A: As long as you are not biased, no. Most list programs offer a rotating option, or alphabetical

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 shares and 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
- Provides borrowers with a neutral, comprehensive list of private education lenders
- Does not endorse/recommend any of the lenders on the list.

How will my institution benefit from a Lender List?

✓
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

PA FORWARD PHEAA
Student Loans

Since 1963, the Pennsylvania Higher Education Assistance Agency (PHEAA) has been working to create affordable access to higher education for students across the nation. Through this mission, PHEAA devotes energy and resources to develop innovative ways to ease the financial burden of higher education. The PA Forward Student Loan Program is designed specifically for PA students, families, and schools to finance higher education costs beyond federal loans, grants, and scholarships.

PA Forward Undergraduate Student Loan

● APR & Rate Type: 4.03% - 6.56% FIXED

PHEAA's PA Forward Undergraduate Loan offers a new, low-cost way to pay for college! Our fixed interest rates mean you never need to worry about your interest rate going up. Our interest rate rewards could save you a total 0.75% (0.50% Graduation and 0.25% Direct Debit) off your interest rate. We offer multiple repayment plan options, zero fees, and an option to choose a 10-15 year repayment term.

DETAILS CALCULATE COMPARE [APPLY NOW](#)

College AVE College Ave Student Loans
STUDENT LOANS

Feeling Stressed? We've Got a Better Process. With our simple and easy application it takes just 3 minutes to apply and get an instant decision. College Ave offers loans for all types of borrowers including: undergrad, graduate, parent, medical, law, and dental studies. With multiple repayment options and loan terms, College Ave allows you to create a loan that fits your budget. A lot comes with a College Ave loan, but what you will not get are any application, processing, or early repayment fees.

College Ave Student Loans - Undergraduate (Variable Rate)

● APR & Rate Type: 1.24% - 11.98% VARIABLE

College Ave Student Loans is simplifying the student loan experience. By specializing in student loans, we are able to give our customers the attention they deserve and deliver loans that are simple, clear, and personalized for the individual: we help you find your perfect fit. We offer competitive rates, a wide range of repayment options, and a customer-friendly experience.

DETAILS CALCULATE COMPARE [APPLY NOW](#)

PNC PNC Bank

The PNC Solution Loan® assists students with education-related expenses after they have exhausted federal loan options. PNC offers fixed and variable rate loans with no origination or application fees. Loans are available for undergraduates, graduate students, students preparing for health professions, medical residents and law students studying for the bar.

PNC Solution Loan® for Undergraduates (Fixed)

● APR & Rate Type: 4.49% - 9.64% FIXED

The PNC Solution Loan offers a way to pay for college after you have exhausted your federal loan options. Borrow up to the full cost of education, less any financial aid. Rates include a 0.50% discount available for automatic payment. Click "Details" for more information about rates and other features of the PNC Solution Loan.

DETAILS CALCULATE COMPARE [APPLY NOW](#)

The Higher Education Opportunity Act 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

Criteria to consider:

- Available Interest rates
- Fee structure
- Repayment options
- Deferments/Forbearances
- Are loans sold?
- Forgiveness opportunities
- Co-signer release
- Dedicated customer service
- Consolidation/Re-Fi
- Customer service track record
- History in education industry
- Smooth, efficient processes
- Borrower benefits
- Credit check specifics
- Average interest rates received
- Loan limits
- Others?

Lender List Requirements

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



Lender 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 Lender List 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 Lender List to its students and families

*Disclosures are automatically updated when using a lender list resource such as ELM Select and Scholarnet
And
Are found on a lender's website in the application process*

Additional Lender List 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**

KEEP RECORDS ON REASONS FOR LENDER OPTIONS

- **Disclosures or links** provided on institution's preferred lender list
 - Allows information to be available if needed
 - Terms and conditions of each loan provided are beneficial to borrowers
 - Info is included when working with established lender list options

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...

Dedicated School Services team

Institution's longevity

Low cost funding options

Fully Higher Education Opportunity Act (HEOA) compliant

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

BORROWER

STUDENT

- Co-signer options

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

RATES

FIXED - Same interest rate; constant monthly payment

- Provides stability and ability to plan

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

- Generally lower rate to start

BENEFITS

• **PRIVATE LENDERS MAY OFFER ANY COMBINATION OF THE FOLLOWING BENEFITS:**

- Co-signer release
- Deferment / 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

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

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

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

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

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

Third Party Lender Lists

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

Neutral lender and product comparison

Ability for school customization and choice

Compare results of multiple lenders















ELMSelect Student View

The image displays five student service cards arranged in two rows. Each card features a logo at the top, the organization's name in the middle, and a phone number at the bottom. A red circle with a number (1 or 2) is located in the top right corner of each card.

- Citizens Bank** (1): 1-800-708-6684
- College AVE Student Loans** (2): 844-422-7502
- PA FORWARD Student Loans** (1): PHEAA, 1-844-723-6793
- Sallie Mae** (2): (866) 972-5004
- WELLS FARGO** (2): Wells Fargo, 1-877-424-2018



FastChoice Student View

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

Summary:

It may seem complicated, but it's not..

Don't fear all of the details shared with you today

Offering a list has become easy and the lender list panic has been dispelled

Importance of meeting with your lenders to understand fair and equitable options that meet your student needs

Historical, all inclusion, may create more confusion than helping, as the programs are as varied as your population

Post Secondary education is an investment, offering assistance in gap solutions increases a comfort level and relationship with your families - shows you care.

Pros and Cons of Offering a List

Pros:

- Creates better customer service
- More receivables due to providing gap research from a trusted source
- Reduces confusion / Less calls
- Less withdrawals due to balances
- Less Tracking on balances
- Less financial changes = affordability
- Increases Retention
- Creates a Can Do attitude
- Better Financial Literacy
 - Reduced affordability confusion

Cons:

- Time to set up a List program and add it to your website

Upfront Work, Reduces Back End Tasks

Resources

- [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](#)
- [ELMSelect.com](#)
- [Scholarnet.com - Fast Choice](#)

Thank You!

Questions or Feedback?