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Preferred Lender Arrangements Lender List Alternatives

Jan. 2011



Preferred Lender Arrangements (PLA)

- October 28, 2009 final rule preamble, p. 55630
 - ✓ What is a preferred lender arrangement in the absence of a preferred lender list?
 - Any action a school takes to recommend, promote, or endorse a lender's loan products

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Preferred Lender Arrangements

- What is a preferred lender arrangement?
 - ✓ Retaining a third party to develop a customized lender list
 - ✓ Excluding certain lenders from a historical list of lenders that have made loans for attendance at the school in the past

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Preferred Lender Arrangements

- A preferred lender arrangement exists when both of the following conditions are met –
 - A lender provides education loans to students at the school or their families, and
 - The school recommends, promotes, or endorses the education loan products of the lender

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Preferred Lender Arrangements

- USDE may consider a PLA to exist even though –
 - ✓ There is no verbal or written agreement between the school and the lender
 - ✓ The lender's name does not appear on a preferred lender list
 - ✓ The school does not have a preferred lender list

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Preferred Lender Arrangements

- The following loans that are exempted from the federal regulatory definition of a “preferred lender arrangement” *must be incorporated into Iowa Code before the exemption is recognized by the Iowa Attorney General*
 - ✓ State-funded loans that include a forgiveness provision for public service
 - ✓ Loans made by a school with donor-directed contributions
 - ✓ Loans made under title VII or title VIII of the Public Service Health Act

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Preferred Lender Arrangements

- An informal opinion from the Iowa Attorney General’s office exempts Iowa schools from providing loan-related disclosures required by Iowa Code Section 261F.5(3) when a school includes on its preferred lender list a loan that it makes with its own funds

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Preferred Lender Arrangement Disclosures & Disclosures That Must Appear on a Preferred Lender List (PLL)

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Disclosures on a Preferred Lender List (PLL)

- **1 – METHOD** you used to select lenders
 - ✓ Method is undefined – you decide
- Disclose it ***prominently***

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Disclosures on a PLL

- **2 – CRITERIA** you considered when evaluating PLL candidates *to ensure lenders are selected based on borrowers' best interests*, for example –
 - ✓ Payment of fees
 - ✓ Competitive interest rates
 - ✓ Other borrower-friendly loan terms
 - ✓ High quality servicing
- Disclose it ***prominently***

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Disclosures on a PLL

- **3 – WHY** you selected each lender, in particular –
 - ✓ Borrower-friendly loan terms and conditions
 - ✓ Other favorable provisions

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Disclosures on a PLL

- **4 – AFFILIATION**

- ✓ For *each lender*, whether that lender is unaffiliated with every other lender on the list
- ✓ If there is an affiliation, *rely on the lender's information* about the affiliation
- ✓ PLL must contain at least **3** unaffiliated private education loan lenders [Iowa Code Section 261F.6(1)(b)]
 - Compliant example: PLL may contain 6 lenders, of which 3 are unaffiliated (GEN-08-06)

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Disclosures on a PLL

- **4 – AFFILIATION (cont.)**

- ✓ Collect and retain a lender affiliation statement *from each lender*
 - Model affiliation inquiry letter is available from Iowa College Aid
 - Verbal statement is *insufficient*

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Disclosures on a PLL

- **5 – CHOICE**

- ✓ A borrower is not required to borrow from a lender on the PLL

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Disclosures on a Preferred Lender List (PLL)

- **6 – AID**

- ✓ The maximum *Title IV Grant aid* (not just Pell Grant aid) and Title IV loan aid available to students attending the school

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New Disclosures on a PLL

• 7 – TILA DISCLOSURES

- ✓ Information about the terms and conditions of each private education loan offered under the PLA as required by the Truth in Lending Act Section 128(e)(1) and (11)
- ✓ The Federal Reserve Board (FBR) has developed a model disclosure form for this purpose
 - *Private Education Loan Application and Solicitation Model Form* (Federal Register Vol. 74, No. 156, issued by the Federal Reserve Board August 14, 2009) – see slides to follow

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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)
1. DEFER PAYMENTS Make no payments while enrolled in school. Interest will be charged and added to your loan.	\$10,000	17.375%	20 years starting after the deferment period	\$81,084
2. PAY ONLY THE INTEREST Make interest payments but defer payments on the principal amount while enrolled in school.	\$10,000	17.375%	20 years starting after the deferment period	\$60,707
3. MAKE FULL PAYMENTS 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 Graduate / 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



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 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.

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.

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.

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



New Disclosures on a PLL

• 7 – TILA DISCLOSURES

- ✓ **Q:** Is the school responsible for collecting the TILA disclosure information?
- ✓ **A: NO.** Each private education loan lender who participates in a PLA with a school must provide to the school the information required on the *Private Education Loan Application and Solicitation Model Form* for each type of loan the lender plans to offer the school's students during the next award year



New Disclosures on a PLL

- **7 – TILA DISCLOSURES (cont.)**
 - ✓ The FRB establishes a deadline for the lender to provide TILA disclosure information to the school
 - ✓ Deadline = the later of April 1 for next award year OR within 30 days of the date the lender enters into or learns about a preferred lender arrangement
 - 2010 FSA Conference Session #32

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Summary of Disclosures on a PLL

- **1: Method**
- **2: Criteria**
- **3: Why each lender was selected**
- **4: Affiliation**
 - ✓ Unaffiliated, or if affiliated, details of that affiliation
- **5: Choice**
 - ✓ Borrower may choose a non-PLL lender

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Summary of Disclosures on a PLL

- **6: Aid**
 - ✓ **Maximum Title IV grant and loan aid available to students attending the school**
- **7: TILA disclosures for each loan offered under a PLA**
 - ✓ **Information required on the FRB's *Private Education Loan Application and Solicitation Model Form***

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Additional PLA Disclosures

- **WHAT MUST I DISCLOSE ?**
 - **COMPARATIVE INFORMATION** about the loans offered under a PLA, at minimum –
 - ✓ Interest rates
 - ✓ Borrower benefits
- **WHERE MUST I DISCLOSE IT?**
 - No prescribed location
 - ✓ Many schools disclose on the preferred lender list
- We suggest a disclaimer: “current as of _____”

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Additional PLA Disclosures

- WHAT MUST I DISCLOSE?
 - ✓ The maximum amount of Title IV grant and loan aid available to students attending the school
 - ✓ TILA disclosures for each loan offered under a PLA (information on the *Private Education Loan Application and Solicitation Model Form*)

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Additional PLA Disclosures

- WHERE MUST I DISCLOSE IT (content of slide #25)?
 - ✓ On your website, and
 - ✓ In any publication, mailing, or electronic message or material that discusses or describes education loans (including but not limited to your preferred lender list)

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Additional PLA Disclosures

- A school must provide these disclosures (content of slide #25) –
 - ✓ To current and prospective students and their families
 - ✓ In a manner that allows prospective borrowers and their families to take the information into account before selecting a lender or applying for a loan
 - ✓ Annually

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Web Disclosure

- Instead of providing the detailed disclosures in printed materials that discuss education loans, a school may provide a link to a school web page that contains the disclosures
- If a school elects that option, printed materials must provide the potential borrower with information for a point of contact at the school where the borrower can obtain the information in print
- July 28, 2009, *Federal Register*, p. 37439

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Additional PLA Disclosures – Iowa Law

- State financial aid options
- Information about terms and conditions of Title IV loans that are more favorable than private education loans (not just a statement that the terms of Title IV loans may be more favorable)
 - ✓ Disclosure location and method is unspecified

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PLA Annual Report

- A school that participates in a PLA must submit an annual report to the USDE
 - ✓ USDE has not yet announced the submission date or method for this report
- The annual report must be made available to the public, and to currently enrolled and prospective students

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PLA Annual Report Content

- TILA disclosure information
 - ✓ Lender-provided information from the *Private Education Loan Application and Solicitation Model Form* for each loan offered under the PLA
- Detailed explanation of why the school participates in a PLA
- Why the terms and conditions of each education loan provided under the PLA are beneficial to students



Lender List Alternatives



Authorized Alternatives to a Preferred Lender List (PLL)

- “Historical” lender list
- “Willing” lender list
- Third-party Website
- No lender information

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”Historical” Lender List

- GEN-08-06: “Historical” lender list
 - ✓ A **neutral, comprehensive** list of lenders that have made loans for attendance at the school during the past 3-5 years or other reasonable period

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“Historical” Lender List

- Neutral, comprehensive lender list (cont.)
 - ✓ State that a borrower may choose any lender
 - ✓ Provide no additional lender information
 - Contact info OK (phone #, web site address)
 - OK to include a comparison of loan terms and conditions
 - *Federal Register* dated October 28, 2009, p. 55630)

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“Willing” Lender List

- GEN-08-06: “Willing” lender list
 - ✓ For a school that attempts to compile a preferred lender list but is unable to secure 3 unaffiliated private education loan lenders –
 - ✓ A list of lenders willing to make loans for attendance at the school

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“Willing” Lender List

- Disclosures:
 - ✓ Make it clear that the school does not endorse any of the lenders
 - ✓ The borrower may chose any lender that is not on the list

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Private Loan Disclosures – No PLA

- 34 CFR 601.11: A school that provides information regarding a private education loan from a lender to a prospective borrower, **regardless of whether the school participates in a preferred lender arrangement (PLA)**, must disclose:
 - The information required by Truth in Lending Act (TILA) Section 128(e)(1)
 - ✓ Data is located on the Federal Reserve Board *Private Education Loan Application and Solicitation Model Form (slides 18 & 19)*

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Private Loan Disclosures – No PLA

- Pam Moran/USDE February 25, 2010:
 - “. . .if the school is providing the names of one or more lenders that make private educational loans, even a historical list, it is subject to these [TILA disclosure] requirements.”
- TILA disclosure applies to a “historical” or “willing” list of private education loan lenders

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Third-Party Website List

- October 28, 2009, Federal Register, p. 55630
- OK to refer students to a third-party Website that maintains a private education lender list, provided:
 - ✓ A school ensures that the list is –
 - Broad in scope
 - Neutral

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Third-Party Website List

- Neutrality
 - ✓ The third-party Website must not recommend or endorse any lender
 - ✓ The lenders must not pay the third party for –
 - Placement on the list
 - Loan volume generated

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Private Loan Disclosures – No PLA

- **NEW** – Pam Moran/USDE December 2, 2010:
 - ✓ ***601.11 disclosures must be provided by a school that refers a student to a third-party website list of lenders, including the information required by the Truth in Lending Act (TILA) Section 128(e)(1)***
 - ✓ This data is located on the Federal Reserve Board *Private Education Loan Application and Solicitation Model Form (slides 18 & 19)*

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Private Loan Disclosures - No PLA

- Recap: all disclosures required by 601.11 for a historical list, a willing list, or referral to a third-party's lender list
 - Information on the availability of Title IV loans and other assistance
 - A statement that the terms and conditions of Title IV loans may be more favorable than the provisions of private education loans
 - **TILA disclosures** for each loan on the list

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Private Loan Disclosures – No PLA

- Disclosures must be provided in a manner that allows students and families to take the information into account before selecting a lender
 - ✓ *Federal Register* dated July 28, 2009, p. 37439
- Information about private education loans must be presented in a manner that is distinct from information about Title IV loans

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No Lender Information

- Make it clear to borrowers that –
 - ✓ You do not endorse any lender
 - ✓ A borrower may choose any lender
- Use the simple statement, “You must select your lender. The aid office cannot do so for you.” (USDE)

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No Lender Information

- Encourage web-based searches
- Suggest lender selection criteria, for example –
 - Borrower benefits
 - Customer service
 - Limits on loan sale
 - Prior business dealings with family/friends
 - Consumer complaints to AG or BBB
 - Lender’s default rate
 - Prior loan program experience

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Questions?

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