School-Lender Relationships

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Agenda

• Historical Practices
• Current Policy
• Future Policy
• Questions
Historical Practices

- Preferred Lender Lists
  - School Option
  - Allowed, but not regulated
Current Policy and Regulations

• Regulations
  – The borrower must indicate his or her preferred lender on the promissory note… (34 CFR 682.401)
Current Policy and Regulations

• Regulations
  – A school may not deny access to FFEL because of race, sex, color, religion, national origin, age, handicapped status, income, or selection of a particular lender or guaranty agency…(34 CFR 682.603)
Historical Practices

• Evolution of Preferred Lender Lists
  – Simplification
  – Default Prevention
  – Competition
  – Proliferation of Borrower Benefits
Pivotal Events

• Headlines
  – Lenders Misusing Student Database
  – Improper Searches Raise Privacy Fears
  – Swimming With Student Loan Sharks
  – University named in report detailing student loan abuse
  – Panel Finds Wide Abuse in Student Loan Program
Responses

• Negative Public Perception
  – Inappropriate Relationships
  – Quid pro quo
  – Corruption
ED Responses

- Dear Colleague Letters
- Negotiated Rulemaking – Began in 2006
- Publication of Final Rule – Nov. 1, 2007
- School Reviews
ED Responses

• Objectives
  – Compliance with Current Policy
  – Borrower Benefits/Choice
  – Ensure Transparency
New Policy – Schools

• Effective July 1, 2008
• School may choose to have preferred lender(s) list (includes web processes)
• List must have at least 3 unaffiliated lenders
  – “Unaffiliated” means:
    • No common control or ownership
    • No common directors, trustees, or general partners
New Policy - Schools

• Must disclose method/criteria for lender inclusion on the list
• Must provide comparative information on borrower benefits offered by listed lenders
• Must include prominent statement advising borrowers that use of school preferred lender not required
• Update annually
New Policy - Schools

• Must not cause any unnecessary delays in certification for borrowers not using one of the school’s preferred lenders
New Policy - Schools

- Publications, scripts and staff training should comply
- Violations could bring sanctions
- Does not apply to FFEL/Direct Loan choice
New Policy - Schools

• Those Not using Preferred lender lists
  – All FFEL loan certification rules apply
  – School may identify lenders that have made loans to school’s students and parents in the past
  – No statement endorsing or recommending a lender
New Policy - Schools

– Provide “neutral” presentation of factors to consider when selecting a lender
  • good borrower benefits
  • good customer service
  • limits on sale of loans, if important to customer
New Policy - Schools

• Encourage web-based searches
• Use the simple statement –
  “You must select your lender. The aid office cannot do so for you.”
New Policy - Lenders

• Prohibited Activities
  – Payments to prospective borrowers, including prizes and additional financial aid
  – Payments or other benefits to a school, school-affiliated organization, or individual for loan applications, volume of loans made, or placement on a preferred lender list
New Policy - Lenders

• Prohibited Activities
  • Payments or other benefits to student lender reps on campus or other solicitors to secure loan applications from prospective borrowers
  • Payment of referral or processing fees to another lender or other party
  • Payment of conference or training registration, transportation, and lodging costs for school or school-affiliated organization employees
New Policy - Lenders

• Prohibited Activities
• Providing staffing to a school except on a short-term, emergency basis
• Payment of entertainment expenses related to lender-sponsored activities for school or school-affiliated employees
Questions?