

Monograph

A N A S F A A S E R I E S

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Practical Information for Student Aid Professionals

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Guide to Developing a Preferred Lender List

This monograph provides guidance to financial aid administrators at schools participating in the Federal Family Education Loan Program (FFELP) for constructing student loan lender lists (often referred to as preferred lender lists). It includes general principles, benefits, and tools to assist in developing an impartial list of student loan providers from which students may select a lender that they believe best meets their needs.

Introduction

The relationship of the financial aid office with student loan providers has recently been the focus of increased attention. Student financial aid administrators have asked NASFAA to provide guidance to the financial aid community by identifying “good practices” and any relevant tools that would be helpful to institutions in developing a preferred lender list.

Developing a systematic and equitable method for selecting lenders for a school’s list can impart many potential benefits to borrowers and schools. Competition among lenders to be included on a lender list can provide impetus for improvements in the overall quality of the products and services they offer. This competition empowers schools to provide borrowers with the best and most efficient service possible, and to give them the best options from which to choose possible lending arrangements. By providing comparisons of the essential criteria involved in various loan programs, schools can offer borrowers an objective method to help with selecting a lender. Schools can develop and display a chart of competing loan programs/products and services offered by lenders that allows borrowers to make a comparison in relatively consistent terms, reducing confusion and helping borrowers and their families make the best-informed decisions.

This monograph is not intended to be exhaustive or exclusive in its approach. It provides a discussion of factors that schools may consider in the selection of lenders for inclusion on the list. It includes a presentation of tools designed to solicit information from lenders and methods for weighing and evaluating the information received. To assist schools in displaying their lender list in as simple and straightforward



a manner as possible, we have included examples of sample formats. Also included is a bibliography of loan calculators to use in analyzing various loan factors important to both the institution and borrowers, as well as a glossary of terms designed to facilitate consistency in evaluating various loan products.

As with the development of any good practice, compliance with federal and state regulations — as well as institutional policies and procedures — is important considerations. The statute and the regulations governing FFELP clearly prohibit the school from engaging

... in any pattern or practice that results in a denial of a borrower's access to FFEL loans because of the borrower's race, sex, color, religion, national origin, age, handicapped status, income, or selection of a particular lender or guaranty agency.

[34 CFR 682.603(e)(3)]

When developing a preferred lender list, schools must acknowledge and explicitly state that borrowers **always** have a choice in selecting a FFELP lender, even if the school itself serves as a FFELP lender. **Schools cannot deny borrowers that choice.**

Factors and Criteria to Consider

Developing a systematic and equitable method for selecting lenders for a school's preferred lender list may provide many potential benefits to borrowers and their schools. Schools must carefully identify, review, and evaluate a number of factors and criteria that are considered important in meeting the needs of students and families.

The relative importance placed on factors and criteria identified by a particular school will be based upon the school's priorities, technological capabilities and the needs and demographics of the school's student population. For example, default management may be more important to a school with a high default rate or a school that primarily serves at-risk students. Managing defaults may be less of a priority for a school never experiencing such problems. Financial aid administrators must compare and evaluate some of the trade-offs between customer service, technology, borrower benefits, default management, and financial planning. In the end, the financial aid administrator must prioritize the benefits provided to the student and the benefits provided to the institution.

In the paragraphs that follow, the importance of

selected factors and criteria are discussed in an attempt to help institutions assess the programs and services offered by lenders.

Borrower Benefits

For many institutions, borrower benefits are the most important consideration in the selection of lenders for a preferred lender list. Ideally, the benefits provided should be easy to understand, quantifiable, and obtainable. Benefits are available in a variety of forms and may be received at disbursement, when entering repayment, or during the course of repayment. Considerations include stipulations or qualifying criteria that may limit a borrower's ability to access benefits. The number of borrowers who actually qualify for benefits, and the effect of consolidation upon any benefits offered, are also of critical importance.

Lender Stability and the Quality of Lender Products, Services, and Customer Service

Preferred lenders need to maintain the highest level of reliability and be dedicated to providing quality customer service to the school and to the school's student and parent populations. Numerous factors may be considered in assessing lender stability and quality. Those may include:

- ♦ Mission statement
- ♦ Number of years in the student loan business
- ♦ Source and stability of capital used in providing loans
- ♦ Mergers and acquisitions in the past five years
- ♦ Commitment to debt management and default aversion
- ♦ School-focused support processes
- ♦ Default rates — national, state, institutional category
- ♦ Relationships with other loan partners
- ♦ Reputation at the local, state, regional and national levels
- ♦ Past, current, and planned market initiatives
- ♦ Existing relationships with guarantee agencies
- ♦ Commitment to helping shape national student loan policy
- ♦ Participation in industry-wide committees, lender association activities and membership in financial aid associations
- ♦ Marketing practices including its promotion of products and services
- ♦ Policy on the sale or sharing of borrower information with other parties
- ♦ Demonstrated security of borrower information

Lender customer service should combine a student-centered mission with customer-centered business practices. Personalized service is a valued attribute for any lender. Lenders demonstrate high standards of service in a variety of ways, including:

- ◆ Ease of application process
- ◆ Web-based application and services
- ◆ Proactive customer communication, including easy access to a borrower's current and cumulative borrowing and estimated repayment information
- ◆ Assignment of a service or marketing representative dedicated to the school
- ◆ Timely and responsive processing with excellent problem-resolution service
- ◆ Ability to provide technical assistance for lender processes and products used by the school
- ◆ Fast and simple PLUS pre-approval processes
- ◆ Knowledgeable customer service representatives
- ◆ A toll-free number for information and advice
- ◆ Loan and debt management assistance (deferment, forbearance, and other repayment options)
- ◆ Loan consolidation services and options, including lender partner agreements if a lender does not offer consolidation
- ◆ Clearly defined "life of loan" management, including policies on loan sales and the use of servicers

In addition to gathering specific lender information, a school may ask a lender to supply school references that may provide testimony outlining why the lender's products and services are the best choice for the institution and the students and parents it serves.

Lender Operational Standards

Students expect speed, efficiency, and accuracy. Student borrowers want a simplified loan process that relies on the Internet, without "extra" software installation or maintenance requirements. Students have become accustomed to doing business with a "click" of the mouse—waiting in line is unacceptable. From both a borrower and a school perspective, it is essential that a lender possess state-of-the-art operations. Some desirable features include:

- ◆ Access loan applications on-line 24/7/365
- ◆ Interface easily with the school's technology
- ◆ Accommodate a variety of processing scenarios
- ◆ Offer numerous disbursement options, including consolidated electronic fund transfer for both federal and private loans
- ◆ Provide a seamless continuum in processing payments, handling inquiries, and maintaining careful records

- ◆ Process and update loan transactions in real time

Lender Value-Added Support and Services

Schools may be offered support from lenders beyond those that are considered part of the usual and normal school support services. These are sometimes referred to as value-added services. The support a lender provides to an institution in the value-added category will often produce a direct benefit for the students. Services provided by a lender to schools, students, and parents fall into a variety of categories, including:

- ◆ Custom-printed information such as loan "wrappers"
- ◆ Development of school-specific Web pages
- ◆ Staff training or professional development activities
- ◆ Financial planning services for students including financial aid workshops, informational seminars, and outreach programs
- ◆ Financial literacy programs including budgeting and credit management
- ◆ Entrance and exit interview materials and presentation assistance
- ◆ Presentations and seminars on resume writing and career options

Whether to accept lender support for written materials and other services must be carefully evaluated by the school to avoid the appearance that the school accepts these services in exchange for sending borrowers to that lender. Accepting funding, even when designated for these materials, is not permitted, since it constitutes a *quid pro quo* exchange of money for services.

Private Loans

As the use of private student loans continues to grow, including this topic in the evaluation of lenders becomes increasingly important. Schools that package to meet the total cost of attendance use private loans to complete the award package. Many private loan products include a variety of borrower options, such as:

- ◆ Front-end fees charged to the borrowers
- ◆ Interest rates
- ◆ Cosigner requirements
- ◆ Credit scoring or other assessment devices and how they are used in determining who can borrow
- ◆ Pre-approval process
- ◆ Back-end fees and benefits and any accompanying stipulations or qualifying criteria
- ◆ Bottom-line savings

- ◆ Combined services and billing with FFELP loans
- ◆ Consolidation options

Additional points to evaluate include school certification requirements, the ease of loan processing and disbursement, approval rates, and the percent of borrowers who actually receive benefits.

Default Management

Many students are determined to pursue a postsecondary degree, but the reality of the prospective loan repayment can be stunning. Increasing borrower awareness of their student loan responsibilities and counseling borrowers on debt management are important factors to consider in preventing defaults. Lenders may provide significant assistance in a school's default prevention activities. In performing the research for a preferred lender list, a school may want to consider the ability of a lender to assist in a variety of ways, such as:

- ◆ Web-based default management and debt counseling presentations
- ◆ Multimedia materials aimed at educating borrowers on debt management
- ◆ Institution-specific loan statistics pertaining to its borrowers
- ◆ Early intervention with borrowers who are delinquent on their loan payments
- ◆ Scheduled communications during periods of non-repayment
- ◆ Employees trained in financial literacy and default management, and available to counsel and assist students and borrowers
- ◆ Default management training for institutional staff

These factors and criteria may serve as a starting point in helping a school research and develop a preferred lender list. An institution may wish to consider other criteria or factors not included here in its evaluation process. Whatever criteria or factors are used, the school should apply them systematically to all of the lenders evaluated, even if the school itself is a lender. Equitable selection and treatment of lenders is in the best interest of borrowers, helping ensure the ongoing availability of educational loans.

Institutional Preparation

An established preferred lender list will help enhance the products and services that an institution can offer to its students and parents. The lenders included on the list

are usually identified as a school's "partners" in helping to deliver loan assistance to its borrowers. The data that is collected by an institution to support a lender's inclusion on the lender list should be quantifiable in terms of service expectations, program benefits, and program offerings. This is a critical process with regard to assuring a school's ability to hold lenders accountable for the preferential treatment afforded them by the institution, as well as assuring the value and intended utility of the lender list that has been developed for a school's students. At the institutional level, initial planning and preparation efforts should include at least two phases: (1) identifying student needs and expectations; and (2) identifying office operational needs. These two phases of "research" are discussed in more detail in the following paragraphs.

Identifying Students' Needs and Expectations

In developing a preferred lender list, it is critical to identify and understand the needs and expectations of an institution's students with regard to borrowing in general, and more specifically with regard to student loan providers/lenders. A list of lenders with services or products about which very little is known by the students at an institution will not have great utility and could become obsolete. A student's values will be shaped by his or her personal, financial, and prior educational experiences; parents' or other influencing persons' input; and perception and understanding of the financial aid process and programs. A student's needs will be shaped by an institution's costs, the student's available resources, the student's attitudes about and their willingness to make sacrifices to obtain an education, and the student's understanding of the long-term implications of attaining a college degree or certificate and borrowing (investing in themselves) to do so. Some of the attributes that an institution may attempt to discover about its student borrowers include:

- ◆ Financial intelligence and experience (level of financial literacy)
- ◆ Aversion to debt, or preconceived notions of appropriate debt levels
- ◆ Need for loan assistance beyond the available federal programs
- ◆ Affinity for "big-box" financial institutions (lenders) versus local lending institutions
- ◆ Affinity for "packaged" services (e.g., student loan, checking account, credit card, car loan, home mortgage, etc. at same institution) versus value shopping for a single product or service only

- ◆ The role of the school in influencing or assisting in a student's selection of a lender

There are several methods the institution can use to identify students' needs and expectations. One of the more direct ways to gather this information is through focus groups. Focus groups can be easily put together, but they can also limit the scope of results obtained. In addition, focus groups often require a trained, effective, and unbiased facilitator to successfully solicit substantive information. However, focus groups allow for a potentially more thorough and detailed identification of students' values and needs by allowing institutions to dig deeper with regard to certain attributes and lines of discussions.

Surveys are a second tool for gathering student input. They can be programmatic, focused, or ad hoc. They can also be a lot of work, a source of challenge, and produce confusion or frustration. Surveys can be focused on one or two items, or they can be complex, with redundant confirming questions intended to assure accuracy of each response.

A combination of focus groups and short surveys will often give good results in a quick and efficient manner. A school may identify the most critical or important attributes and get representative input through an appropriate survey instrument, then supplement this with focus groups to obtain more substantive and qualitative information. The survey responses can be used to stimulate the focus group discussion and let the focus group either ratify or dispel the findings from the survey. Unless there is a dramatic change in an institution's enrollment or the economy, these findings and attributes are not likely to change significantly from one year to another, so a periodic "pulse check" every few years after the initial assessment should keep a school on target.

Identifying Institutional Student Financial Aid Office and Other Relevant Operational Needs

The financial aid office at an institution is usually the primary source for financial assistance and related information provided to students. Student loan activity often comprises the largest such initiative within that office. An institution's relationships with student loan providers can enhance or diminish the value of the services that an institution provides to its students; therefore, another phase of institutional preparation is to identify those areas that are either at-risk or that may be enhanced by an institution's lender relationships. This

preparation phase embodies an operational assessment of the various institutional processes and steps in the student loan cycle. From this perspective, a key to eventually constructing an effective lender list is to assure that potential lenders work for the institution and that their processes fit the institution's requirements and student needs. It is usually not effective or efficient to attempt to manage a number of distinctly different student loan operational processes from many different lenders, all with the same basic program benefits and outcomes.

Some of the components or steps of the student loan processing cycle that may be included in an institution's operational assessment are as follows:

- ◆ Application assistance
- ◆ Financial advising (entrance and exit counseling, financial planning, etc.) to be provided to potential as well as current borrowers
- ◆ Loan certification process
- ◆ Disbursement options
- ◆ Requests for additional or reduced loan amounts and loan cancellations
- ◆ Refunds/return of loan funds
- ◆ Post-graduation and withdrawal activities
- ◆ Collection assistance

The operational assessment begins with an evaluation of the system and process requirements for each of the activities stated above. The institution's operational expectations related to its financial operations and its relevant technology requirements and limitations will influence each of these processing activities. Identifying the institution's capacity to manage variable interactions and possibly enhance its service capabilities may also be included.

Performance Criteria

As part of its preparation, an institution must attempt to identify relevant performance criteria for each activity and the level of performance that is expected or required with regard to each identified activity. Listed below are some examples and suggestions, by category, that may be considered.

Application Assistance Provided to Borrowers: To what extent do students at the institution require PLUS or private loan funding? Do the students need assistance with completing those applications? Does the lender's application process need to be integrated directly into the institution's financial aid information? How is the notification of any relevant credit approvals provided to the borrower and/or school?

Financial Advising: To what extent are institution-specific financial literacy materials used for entrance and exit counseling? Does the lender provide counseling on financial planning? Do the lender's or guarantor's materials meet the school's needs? Is in-person entrance and exit counseling provided?

Loan Certification Process: What is the desired process and timeframe for certifying Stafford, PLUS, and private loans? How is a student's desire or intent to borrow identified? What are the expectations for guarantee and approval responses after loan certifications are submitted? Does your institution tolerate any exceptions to this process?

Disbursement Options: How often are disbursements required (daily, weekly)? What disbursement options does the lender offer (ACH, wire transfer, master check)? Are they provided in a timely manner that meets the expectations of borrowers as well as the needs of the institution? Are disbursements held until released, and if so, how quickly are deposits made after release?

Requests for Additional or Reduced Loan Amounts and Cancellations: What is the process for adjusting loan amounts? How are requests for reduction initiated with the lender and communicated back to the financial aid office when an adjustment is accomplished?

Refunds/Return of Funds: What is the lender's process for refunding/returning student loan funds (net future disbursements, ACH, check, auto-debit, etc.)? Does your institution tolerate any exceptions to this process?

Post-Graduation or Withdrawal Activities: Given the available resources, to what extent is the financial aid office actively engaged in post-enrollment loan and debt counseling for its borrowers? In those cases where the lender provides exit counseling, does the institution have an individual available to assist students immediately following the exit interview or within a reasonable time frame following counseling? Is institution-specific information provided to students when they withdraw or graduate?

Collection Assistance: How actively is the institution involved with the student loan collection process? Are delinquencies monitored and/or are there other default aversion programs in existence at the institution? What information is provided to the institution by the lender to assist in collections activity? Is activity in this area limited, for example, to only completing the *Lender Requests for Assistance*?

Identifying and Gathering Input from Preferred Lender List Candidates

Identifying Candidates

If an institution is located in the panhandle of Florida, then it probably is not interested in finding out what a local bank from the panhandle of Idaho may be able to offer. It does not make sense to seek, review, and evaluate input from several hundred different lenders. A sufficient number of solicitations and responses are needed to assure a good representation of lenders that appear to meet an institution's selection or evaluation criteria without overburdening the selection process.

It may make sense to start by considering those lenders with which the institution currently works and with whom the institution has enjoyed a good working relationship. Consider such factors as which lenders are responsive to the institution's requests, which lenders the institution's students have chosen in the past (and why), and which lenders have generated relatively fewer past issues or have created the fewest problems for students and the financial aid office. Also, talk to colleagues within the state and region, as well as nationally. Ask them which lenders they enjoy working with and why. Develop a fairly exhaustive preliminary list of lenders from whom more information is needed and do not necessarily qualify or disqualify any lenders at this time. Include the school in the list of lenders to be evaluated if the school participates as an FFELP lender.

A listing of suggested (potential) factors and criteria to consider has been previously presented; nonetheless, each institution will ultimately need to develop its own unique listing of the factors that it considers important and that will be used to evaluate a potential preferred lender list candidate. The next step is to determine if the chosen criteria are key or crucial criteria for all lender list candidates to meet. Then apply those criteria to the preliminary list and identify the lender finalists who will then be invited to participate in the institution's lender list selection process. There is no magic number or right set of qualifiers. Possibly, the only standard is that the list of qualification criteria should fit both the institution and the institution's borrowers' identified needs and must not be compromised.

Gathering Input

The next phase of the process is to solicit the information needed by the institution in support of the selection criteria and factors that have been previously identified. Some options to consider for obtaining the information desired are:

Request for Information (RFI) Solicitation: A formal request sent by the institution inviting each lender to submit specific detailed pre-determined information. An RFI is sometimes used as a way for institutions to get help in “thinking their way through the process,” by using lenders (in this case) as insightful contributors or consultants. In some cases, an RFI is solicited and the relevant information gathered in that process is then used to develop a Request for Proposal (RFP) solicitation.

Request for Proposal (RFP) Solicitation: A formal request may be sent by the institution inviting each lender to submit a formal proposal/response. The RFP should require submission of specific detailed pre-determined information on a lender’s ability to provide the goods and/or services the institution is seeking.

Presentation(s) by Lender(s): At some point in the development of a preferred lender list, selected lender candidates could be invited to the institution and asked to do a “presentation.” Lenders are given the opportunity to present their products and services, and to put forth their best proposal in support of being placed on the school’s lender list. This sometimes occurs as a later step following an RFI or RFP solicitation.

Interview Session(s): Lenders may be invited to campus and asked to participate in a formalized interview process with personnel from appropriate offices. During this interview, the institution’s administrators ask questions and gather information relevant to making the lender list decision. Interview sessions can be combined with one or more of the options mentioned above.

Tour of the Lender’s Operations Center: Another way to gather helpful information about the lender is to take a tour of that lender’s operations and/or servicing center, if one exists. This undertaking would probably be combined with one or more of the options mentioned above.

Developing an RFI or RFP

At this point, a list of key evaluation criteria for lender candidates, key student needs, expectations, and the operational requirements for the institution should have been identified, so that this information can be used to help construct the RFI or RFP. To reduce potential confusion and eliminate the extra time needed to complete the evaluation process, avoid adding questions that do not pertain to the identified factors, criteria, and requirements.

Collecting the desired information can be a challenging and difficult undertaking. Unless given specific instructions and detailed questions to solicit responses, a lender may (without realizing it) provide responses that are either ambiguous or do not answer the questions with the information and/or details being sought. To ensure that the institution obtains the desired and appropriate responses, questions must be phrased in a way that minimizes the opportunity for ambiguity. Try to avoid asking “yes” or “no” type questions. For example:

Instead of asking, “*Is your company capable of providing real-time credit approvals for PLUS and private loans?*” ask questions like these:

- ◆ *What data elements are required to submit a PLUS pre-approval application?*
- ◆ *What data elements are required to submit a private loan pre-approval application?*
- ◆ *What is the average response time after each type of loan application has been completed and submitted?*
- ◆ *What percent of each category of loan applications is approved on first submission?*
- ◆ *What percent of application denials is automatically directed for a second review?*

Instead of asking, “*Does your company offer borrower benefits?*” ask or instruct the lender to “*Please identify each of your borrower benefits, the requirements for each, and the borrower utilization rate for each since their inception.*”

You might ask, “*What was your company’s FY 2003 cohort default rate for community college borrowers in the state of XYZ?*” as a way of determining the company’s capability for mining their own data or working with a certain category of borrowers.

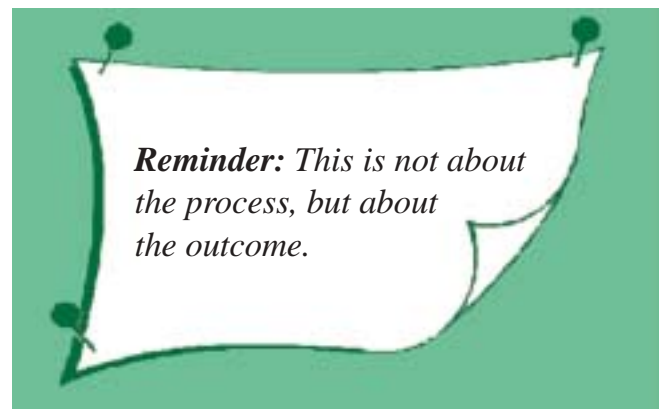
When issuing an RFI or RFP, provide a submission deadline emphasizing the closure date and time for receipt, as well as the format for submission of all proposals. Allow adequate time for lenders to review the RFI or RFP and ask follow-up questions. Consider establishing set times and dates for fielding those questions, possibly limiting that interaction to a single specific time and location (or a specific process) in which all lenders can participate concurrently. The advantage in doing this is that all lenders will hear the same questions and answers. It also conserves the school's time spent on the process. A potential downside to this process is that it may inhibit questions from lenders who feel they would give away some of their "edge" by asking the questions in the first place. Schools should develop a process that best meets their objectives and is structured so that they may get the best possible lender responses, while allowing a reasonable amount of time for each of the lenders who wish to respond to do so.

If the RFI or RFP has been well-constructed and if lenders have been instructed to respond in a specific, consistent form or format, comparing and evaluating the lender submissions will be more manageable and efficient for the institution. Information that is received from lenders may be incomplete or need further clarification. Build into the process a timeline that allows adequate time for a thorough review of the information or proposals and allows the institution to send out a follow-up request for additional information, questions, or clarification of input that has been received from the invited lenders. Notify the invited lenders that this will be a part of the process. Inform them that there is no guarantee that they will be given the opportunity to provide more information later.

Evaluating Lender Responses

When deciding whether or not to include a lender on the preferred lender list a school offers to its borrowers, it can be challenging for a school to weigh objectively the many different attributes that it has decided to evaluate. A lender may excel in several areas. How important is each area to both the school and its borrowers? How can lenders be compared objectively and impartially?

To evaluate the responses, the financial aid office is encouraged to form a committee. The committee should be representative of all stakeholders in the student loan process, representing the financial aid office, student accounts, students, etc. A broad committee structure will



increase the objectivity of the evaluation process and protect it from undue political influence.

The factors, criteria, student needs and expectations, institutional needs and expectations, and other items of importance that have been identified by an institution in the earlier stages of this process can be used to develop a *Preferred Lender Scorecard*. The table on page 12 displays a sample scorecard listing 25 specific criteria with lines for additions.

Note: Since no single listing can be expected to include all criteria important to all schools, each institution will need to create its own scorecard that includes, at a minimum, all of the specific items it has identified as important.

Using the Preferred Lender Scorecard

After reviewing the criteria, assign a level of priority from '5' to '0' to each criterion. A '5' implies that the criterion is of high priority for the institution or its borrowers. A '4, 3, 2, or 1' would each imply a lesser degree of priority. A '0' implies that the criterion is not applicable to your borrowers or your institution. This score is designated the *Priority Rating*. Note that the *Priority Rating* assigned to each of the identified criteria is the same for all lenders being rated.

Before completing a lender's score for each criterion, obtain information about the lender's track record, services, products, and practices. This is done through a combination of methods that have been discussed previously – RFP or RFI solicitation, presentations by the lenders, interview sessions with lenders, students or other schools, a tour of the lender's operations center, a combination of these methods, etc.

Using the information gathered from/about that lender, grade each criterion with a score of '5' to '0,' where a '5' represents the highest (most satisfactory) level of lender performance. A '4, 3, 2, or 1' would each imply a lesser degree of performance, while a '0' repre-

sents an unsatisfactory level of performance. This score is designated the *Performance Rating*.

For each criterion listed, multiply the *Priority Rating* by the *Performance Rating* to obtain a *Priority-Performance Product*. Add each of the *Priority-Performance Products* to obtain the *Total Priority-Performance Score* for the lender. The *Total Priority-Performance Scores* can then be used to rank-order the lenders (if desired) and to help make final decisions regarding the lenders that the institution ultimately includes on its Preferred Lender List.

The scoring process is summarized as follows:

1. Establish a review committee.
2. Identify/list all the criteria to be included on the *Preferred Lender Scorecard*.
3. Assign a *Priority Rating* to each criterion, where a '5' is highest and a '0' is lowest
4. Do the necessary research (data gathering, collecting, and evaluating lender input, etc.).
5. Assign a *Performance Rating* to each criterion, where a '5' is highest and a '0' is lowest.
6. Multiply the ratings in steps 3 and 5.
7. Total the scores in step 6.
8. Compare the lenders' *Total Priority-Performance Score*.
9. Determine preferred lenders.

Example: Mountain Home University, where the cost of attendance exceeds \$20,000, enrolls both undergraduate and graduate students from across the country and around the world. The school uses a well-known student information system and relies on electronic processes for delivering student loan proceeds.

The University first assigned a *Priority Rating* to each of the 25 criteria on its *Preferred Lender Scorecard*. Note that the *Priority Ratings* will remain the same for all lenders being rated. The University interviewed peer institutions, among numerous other actions taken, and ultimately solicited Requests for Information (RFI) from a number of selected regional, state, and national lenders. The University's focus was on criteria with a *Priority Rating* greater than 2.

The University evaluated this lender's submission plus other relevant information it had available, assigned a *Performance Rating* for this lender to each criterion, and then calculated the *Total Priority-Performance Score* of 294 for this particular lender.

The table on page 13 displays the completed *Preferred Lender Scorecard* associated with this example. This lender would most likely be included on Mountain Home University's Preferred Lender List if its score of

294 were at the top or among the top scores of all lenders that were evaluated by Mountain Home University.

Displaying the Preferred Lender List

After the evaluation and review of potential candidates is completed and the institution decides which lenders will be included on its preferred lender list, the next step is to present the list to borrowers. Preferred lender lists must be displayed in a manner consistent with other financial aid communications. There is no right or wrong way to display a preferred lender list. What works for one institution may not be best for another. However, there are a number of topics to consider in developing the display.

Display Topics

- ✓ Types of loans
- ✓ Lender contact information
- ✓ How to apply
- ✓ Special benefits and/or borrower incentives
- ✓ Deadlines
- ✓ Sample repayment charts
- ✓ Other important information
- ✓ Unlisted lenders
- ✓ Frequently asked questions

A typical display may include the following topics:

Types of Loans: How will the types of loans offered by the lenders be displayed? Will only the Federal Stafford Loan preferred lenders be listed, or will separate lists also be presented for PLUS, private, and consolidation loans?

Lender Contact Information: This includes information such as the lender's Web site address or a link to the lender's Web site, code number, telephone number, and the loan servicer to be used.

How to Apply: Will the borrower apply directly to the lender of their choice by contacting them directly or via a link to the lender's Web site provided within the list?

Will the borrower be directed through a process controlled by the financial aid office that may include an on-line completion of forms? Will information on the disbursement process be included or will borrowers be instructed regarding when and where they can obtain this information?

Special Benefits and/or Borrower Incentives: Will the list include descriptions of special benefits and incentives available to borrowers that are easy to understand and compare to other lenders on the list? Will the information be filtered, calculated, and populated by the financial aid office? On the other hand, will the institution take the information as given directly from the lender?

Note: The various back-end borrower benefits can be confusing, so it may be beneficial to calculate and display what the savings would be on a typical loan amount assuming the borrower earned the benefits. Borrower benefits can be offered in two types — benefits achieved automatically and benefits achieved through borrower behavior. Empirical data suggests that behavioral benefits are more difficult to obtain. Borrowers must be advised and informed accordingly.

Deadlines: These are the loan deadlines for a term and/or award year. Will the application information on other related financial assistance deadlines also be included?

Sample Repayment Charts: This should include information on loan repayment. Will links and/or information concerning loan consolidation and nonstandard repayment options available to the borrower be included?

Other Important Information: Will student financial assistance consumer information such as the institution's refund policy, return of Title IV funds information, satisfactory academic progress requirements, entrance and exit interview requirements, etc., be included here or will the institution provide links to Web sites where this information can be obtained by students? Will the institution identify other methods by which students can obtain the additional required consumer information?

Unlisted Lenders: Remind borrowers of their right to choose any lender, and provide guidance to those who choose to use lenders that are not listed. To encourage the use of the listed lenders, many institutions provide their rationale for including the lenders listed. In addition,

many institutions promote the advantages of using a lender from the preferred lender list (e.g. speed of processing the loan and disbursement of funds and benefits to the borrower).

Frequently Asked Questions: A compilation of frequently asked questions concerning borrower options and the loan process in general is included to help borrowers navigate through the loan application and disbursements processes, as well as reduce the number of questions directed to the financial aid office.

Lender Lists

In displaying the lenders included on a preferred lender list, the order of the lenders may steer borrowers to one lender over another. Generally, lenders listed first receive more applications than other lenders. To level the playing field, a number of schools have devised programs that allow the order of the lender list to change on a regular basis (daily, weekly, etc.). This allows a fair display of lenders because no single lender will always be listed first.

Many schools display their lender lists on their Web sites. Institutions are encouraged to visit Web sites of FFELP schools to view their displays for more ideas on how best to display their list. Examples of generic preferred lender list displays are on pages 14 - 17.

Note: The examples are provided to give suggestions and provided a starting point for schools in developing their own displays. The data provided is fictitious and does not reference or reflect the actual data of any particular or actual lenders.

Epilogue

This monograph does not provide all the answers or include all the tools and insights that an institution may require to develop a systematic approach to developing its preferred lender list. We hope that the information provided will be of assistance and will give institutions a significant amount of "food for thought" to use productively and successfully to their advantage.

The following appendices are provided as additional sources of information that can be used to help analyze certain loan factors or criteria, such as interest rates, fees, and repayment benefits, and to help provide consistency in defining and evaluating various loans products and services.

Financial aid administrators understand that students are best served when their decisions are based upon in-

formed choice. Ultimately, the selection of a lender is the borrower's decision. As financial aid professionals, we support and serve that choice.

Acknowledgements

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Preferred Lender Scorecard—Sample

A* X B* = C*

	A*	X	B*	=	C*
1) Name recognition of lender	_____		_____		_____
2) Experience of peers with lender	_____		_____		_____
3) Customer service	_____		_____		_____
4) Market position of lender	_____		_____		_____
5) Market initiatives of lender	_____		_____		_____
6) Stability of lender	_____		_____		_____
7) Hold/sell loans after origination	_____		_____		_____
8) Guarantee agency relationships of lender	_____		_____		_____
9) Front end fees/benefits for borrowers	_____		_____		_____
10) Repayment incentives/benefits for borrowers	_____		_____		_____
11) Default rate of lender	_____		_____		_____
12) Private loan products	_____		_____		_____
13) Electronic Funds Transfer (EFT) option	_____		_____		_____
14) Compatibility with school's computer system	_____		_____		_____
15) Common Line compliance	_____		_____		_____
16) Loan processing options	_____		_____		_____
17) Electronic signature options	_____		_____		_____
18) PLUS pre-approval options	_____		_____		_____
19) Web-based services for borrowers	_____		_____		_____
20) Support offered to school	_____		_____		_____
21) Marketing techniques	_____		_____		_____
22) Loan consolidation options	_____		_____		_____
23) Lender's marketing testimony	_____		_____		_____
24) Value added products and services	_____		_____		_____
25) Other _____	_____		_____		_____
26) Other _____	_____		_____		_____
27) Other _____	_____		_____		_____
28) Other _____	_____		_____		_____
29) Other _____	_____		_____		_____
30) Other _____	_____		_____		_____
TOTAL Priority-Performance Score					_____

* A represents the *Priority Rating* for each criterion where a '5' is highest and a '0' is the lowest.
 B represents the *Performance Rating* for each criterion where a '5' is highest and a '0' is the lowest.
 C is the *Priority-Performance Score* and is the product of multiplying the A rating by the B rating.

Preferred Lender Scorecard as Completed by Mountain Home University

	A*	X	B*	=	C*
1) Name recognition of lender	<u>0</u>		<u>0</u>		<u>0</u>
2) Experience of peers with lender	<u>5</u>		<u>4</u>		<u>20</u>
3) Customer service	<u>5</u>		<u>3</u>		<u>15</u>
4) Market position of lender	<u>2</u>		<u>3</u>		<u>6</u>
5) Market initiatives of lender	<u>3</u>		<u>1</u>		<u>3</u>
6) Stability of lender	<u>3</u>		<u>4</u>		<u>12</u>
7) Hold/sell loans after origination	<u>3</u>		<u>4</u>		<u>12</u>
8) Guarantee agency relationships of lender	<u>4</u>		<u>4</u>		<u>16</u>
9) Front end fees/benefits for borrowers	<u>5</u>		<u>1</u>		<u>5</u>
10) Repayment incentives/benefits for borrowers	<u>3</u>		<u>3</u>		<u>9</u>
11) Default rate of lender	<u>5</u>		<u>4</u>		<u>20</u>
12) Private loan products	<u>5</u>		<u>4</u>		<u>20</u>
13) Electronic Funds Transfer (EFT) option	<u>5</u>		<u>4</u>		<u>20</u>
14) Compatibility with school's computer system	<u>5</u>		<u>5</u>		<u>25</u>
15) Common Line compliance	<u>5</u>		<u>4</u>		<u>20</u>
16) Loan processing options	<u>3</u>		<u>2</u>		<u>6</u>
17) Electronic signature options	<u>5</u>		<u>4</u>		<u>20</u>
18) PLUS pre-approval options	<u>4</u>		<u>1</u>		<u>4</u>
19) Web-based services for borrowers	<u>4</u>		<u>2</u>		<u>8</u>
20) Support offered to school	<u>5</u>		<u>3</u>		<u>15</u>
21) Marketing techniques	<u>5</u>		<u>4</u>		<u>20</u>
22) Loan consolidation options	<u>3</u>		<u>4</u>		<u>12</u>
23) Lender's marketing testimony	<u>2</u>		<u>2</u>		<u>4</u>
24) Value added products and services	<u>2</u>		<u>1</u>		<u>2</u>
25) Other _____	_____		_____		_____
26) Other _____	_____		_____		_____
27) Other _____	_____		_____		_____
28) Other _____	_____		_____		_____
29) Other _____	_____		_____		_____
30) Other _____	_____		_____		_____
TOTAL Priority-Performance Score					<u>294</u>

* A represents the *Priority Rating* for each criterion where a '5' is highest and a '0' is the lowest.
 B represents the *Performance Rating* for each criterion where a '5' is highest and a '0' is the lowest.
 C is the *Priority-Performance Score* and is the product of multiplying the A rating by the B rating.

Sample Display #1

Lender:	Address:	Lender Code:	Stafford Origination Fee:	PLUS Origination Fee:	Stafford Repayment Savings Programs:
ABC Bank	P.O. Box 999 Minneapolis, MN 55555 800/999-0000 www.ABCBank.com	#999999	3%	3%	ABC Savings
DEF Bank	9999 Michigan Ave. Suite 9999 Chicago, IL 66666 800/888-0000 www.DEFBank.com	#777777	3%	3%	DEF Cash Rewards
EFG Bank	P.O. Box 555 Miami, FL 33333-3333 800/333-0000 www.EFGBank.com	#444444	3%	3%	EFG Savings
MNO Credit Union	P.O. Box 444 Washington, DC 19999-0001 800/444-0000 www.MNOCU.com	#333333	0%	Not a PLUS Lender	MNO
WXY Lending	P.O. Box 222 St. Louis, MO 66666 800/222-0000 www.WXYLending.net	#222222	2%	3%	WXY Rewards
XYZ Bank	P.O. Box 1111 Los Angeles, CA 99999-9999 800/111-1111 www.XYZBank.com	#011001	2%	3%	XYZ Savings

Important Note: You have the right to choose to borrow your loan from any lender who participates in the program under which you are eligible to borrow. If the lender you wish to use is not listed please contact the financial aid office.

Sample Display #2

Select	Lender Information	Loan Servicer	Special Benefits/Incentives
SELECT	<p style="text-align: center;">XYZ Bank Lender Code: 666666 www.xyzbank.com (800) 222-2222</p>	<p>Servicer R servicerR.com</p>	<ul style="list-style-type: none"> • 1.00% rebate of original loan amount after making first 24 consecutive on-time payments with automatic debit. • Additional 1.00% rebate after making 36 consecutive on-time payments with automatic debit. • Additional 1.00% rebate after making 48 consecutive on-time payments with automatic debit. • These incentives are for new borrowers with loans first disbursed on or after July 1, 2002. • Borrowers may choose either a cash rebate or apply the rebate to their principal balance.
SELECT	<p style="text-align: center;">ABC Bank Lender Code: 999999 www.abcbank.com (800) 333-3333</p>	<p>Servicer T servicerT.com</p>	<ul style="list-style-type: none"> • 2.00% origination fee reduction at disbursement for loans disbursed on or after July 1, 2002. • 3.00% original principal balance reduction after the first 36 payments are made on-time with automatic debit.
SELECT	<p style="text-align: center;">MNO Bank Lender Code: 777777 www.mnobank.com (800) 444-4444</p>	<p>Servicer V servicerV.com</p>	<ul style="list-style-type: none"> • 1.50% original principal balance reduction at repayment for Mountain Home University graduates. • 3.50% original principal balance reduction after the first 48 scheduled payments are made on-time. Borrowers may choose either a cash rebate or apply the rebate to their principal balance. • To qualify for both benefits listed, the borrower must agree, prior to repayment, to receive servicing information via e-mail and enroll in Ruralbank's internet self-service feature.

Important Note: You have the right to choose to borrow your loan from any lender who participates in the program under which you are eligible to borrow. If the lender you wish to use is not listed please contact the financial aid office.

Sample Display #3

Full-Service Financial Partners

Student Loan Providers

Loan Features	MyBank Logo	DadsBank Logo	MomsBank Logo	SisBank Logo	BrosBank Logo	YourBank Logo
Apply on-line:	Apply Now!	Apply Now!	Apply Now!	Apply Now!	Apply Now!	Apply Now!
Phone number:	800-344-0000	800-967-0000	800-967-0000	800-337-0000	888-337-0000	866-759-0000
Federal Stafford and Parent PLUS Loans:	Both are Available	Both are Available	Both are Available	Both are Available	Both are Available	Both are Available
Stafford Interest Rates(July 1, 2002 - June 30, 2003):	4.06%	4.06%	4.06%	4.06%	4.06%	4.06%
Parent PLUS Interest Rates (July 1, 2002 - June 30, 2003):	4.86%	4.86%	4.86%	3.86%	4.86%	4.86%
Stafford Loan Fees:	3% Origination fee	3% Origination fee	3% Origination fee	2% Origination fee	3% Origination fee	3% Origination fee
Stafford Loan Benefits:	3.3% credit or check; borrowers must enroll in online account access, agree to receive education account information at a valid e-mail address and make the initial 33 scheduled payments on time.	2.00% interest rate reduction for making 48 consecutive scheduled payments on time. 0.25% interest rate reduction for borrowers authorizing automatic debit of monthly payments from a checking or savings account through DadsBank's E-Z Pay service. 1% principal reduction at repayment and .25% interest rate reduction at repayment (for loans disbursed between 07/01/02 & 06/30/04). 8% interest rate cap (0.25% lower than the standard cap of 8.25%).	Cash rebates totaling 3.5% of original loan amount when first 24, 30, and 36 consecutive scheduled payments are made on time using auto debit. Apply rebates toward principal reduction and savings can increase up to 4.71%.	3.3% credit or check; borrowers must enroll in online account access, agree to receive education account information at a valid e-mail address and make the initial 33 scheduled payments on time.	3.3% credit or check; borrowers must enroll in online account access, agree to receive education account information at a valid e-mail address and make the initial 33 scheduled payments on time.	2.00% immediate interest rate reduction for borrowers authorizing automatic debit of monthly payments from a checking or savings account.
Savings on a \$10,000 Stafford Loan @ 4.06%	\$440	\$864	\$470	\$562	\$440	\$1,220
PLUS Loan Benefits:	.25% interest rate reduction for borrowers authorizing automatic debit of monthly payments from a checking or savings account.	1% principal reduction and 0.25% interest rate reduction at repayment. Additional 0.25% interest rate reduction for borrowers authorizing automatic debit of your monthly payments from a checking or savings account through DadsBank's E-Z Pay service. Parents may defer payments while their son or daughter is in-school.	Cash rebates totaling 3.5% of original loan amount when first 24, 30, and 36 consecutive scheduled payments are made on time using auto debit. Apply rebates toward principal reduction and savings can increase up to 4.98%.	.50% interest rate reduction for borrowers authorizing automatic debit of monthly payments from a checking or savings account.	.25% interest rate reduction for borrowers authorizing automatic debit of monthly payments from a checking or savings account.	2.00% immediate interest rate reduction for borrowers authorizing automatic debit of monthly payments from a checking or savings account.
Savings on a \$10,000 PLUS Loan @ 4.86%	\$184	\$514	\$498	\$1,006	\$184	\$1,296
Alternative Loans Available:	Yes	Yes	Yes	Yes	Yes	Yes
Repayment:	Combined billing (Stafford and Alternative loans will be sent in one billing statement)	Combined billing (Stafford and Alternative loans will be sent in one billing statement)	Combined billing (Stafford and Alternative loans will be sent in one billing statement)	Combined billing (Stafford and Alternative loans will be sent in one billing statement)	Combined billing (Stafford and Alternative loans will be sent in one billing statement)	Combined billing is unavailable (Stafford and Alternative loans will be billed separately)

Sample Display #3 (continued)

Full-Service Banking Options

Loan Features	MyBank Logo	DadsBank Logo	MomsBank Logo	SisBank Logo	BrosBank Logo	YourBank Logo
Free Online Banking:	Yes	Yes	No	No	No	No
Credit Cards:	Yes	Yes	No	No	No	No
Home Loans:	Yes	Yes	Yes	No	No	No
Other Loans:	Yes	No	Yes	No	No	No
Insurance:	Yes	No	No			
Investment Services:	Yes	Yes	No			
Additional Information:	www.mybank.com	www.dadsbank.com	www.momsbank.com	www.sisbank.com	www.brosbank.com	www.yourbank.com

Important Note: You have the right to choose to borrow your loan from any lender who participates in the program under which you are eligible to borrow. If the lender you wish to use is not listed please contact the financial aid office.

Appendix A

Glossary of Selected Terms

Accrued Interest: Interest that builds gradually on the loan. Each day, or after some other specified period of time has passed, interest is calculated on the unpaid principal balance and becomes accrued interest.

Actual Interest Rate: The annual interest rate a lender charges on a loan, which may be equal to or less than the “applicable” or statutory-interest rate on that loan.

Amortization: The process of gradually repaying a loan over an extended period of time through periodic installments of principal and interest.

Annual Percentage Rate (APR): The total cost of loan funds, including all fees and interest, usually expressed as a percentage.

Applicable Interest Rate: The maximum annual interest rate (under the Higher Education Act) that a lender may charge on a loan. Sometimes referred to as the Statutory Interest Rate.

Automatic Debit: The automatic deduction of funds from the borrower’s checking or savings accounts to cover monthly education loan payments. Borrowers may receive a 0.25 percentage interest rate reduction for implementing this payment option with regard to eligible loans during active periods of repayment as long as payments are made on time.

Average Daily Balance (ADB): The sum of unpaid principal balance outstanding on all qualifying loans at each actual interest rate for each day of the quarter or some other specified period of time, divided by the sum of the number of days in the quarter or other specified period of time.

Billed Interest Due Amount: The amount of accrued interest due on an outstanding principal balance.

Borrower: An individual to whom a FFELP, PLUS, Direct or private loan is made.

Borrower-Specific Deferment: Refers to the federal requirement that eligibility for a deferment be applied to all of a borrower’s loans, rather than to each separate loan. For example, a borrower who has used the maximum 24 months of internship deferment is not entitled to an additional internship deferment.

Capitalized Interest: Accrued interest that is added to the borrower’s outstanding principal. Subsequent interest accrues on the new total principal balance, which then includes any previously capitalized interest.

Combined Billing: Lenders (or servicers) generally offer a combined bill for all of a borrower’s loans serviced by that lender/servicer so that the borrower only needs to make one payment per month for all of his/her outstanding loans.

Consolidation: The combining of existing loans into one totally new loan, which can result in lower monthly payments but higher total dollars being repaid due to a longer repayment period and more interest being paid over the life of the Consolidation loan.

Cosigner: A person who signs the promissory note in addition to the borrower and is responsible for the repayment obligation if the borrower does not pay.

Credit-Worthy: An individual with no negative credit history per the criteria established by the lender.

Default: The failure of a borrower (or endorser or co-maker, if any) to make installment payments when due, or to meet other terms of the promissory note or other written agreement(s) with the lender, under circumstances where the U.S. Department of Education or the guarantor of the loan reasonably concludes that the borrower no longer intends to honor his/her obligation to repay a loan, provided that this failure persists for the most recent period of 270 consecutive days (for a loan repayable in monthly installments) or the most recent 330-day period (for a loan repayable in less frequent installments).

Deferment: A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal.

Disbursement: The transfer of loan proceeds by individual check, master check, or electronic funds transfer (EFT) by a lender to a borrower, a school, or an escrow agent. For a Consolidation loan, disbursement is the transfer of borrower loan proceeds from the consolidating lender to the current holder(s) of the loan(s) being consolidated.

Electronic Funds Transfer (EFT): The electronic transfer of Stafford or PLUS loan proceeds from the lender to an account at the school, or the school's designated financial institution, for the borrowers' ultimate use.

Eligible Borrower: A borrower or potential borrower who meets federal eligibility criteria for a Federal Stafford loan or, in the case of a parent borrower, a Federal PLUS loan.

Endorser: A signer of a promissory note who is secondarily liable for a loan obligation, i.e., who agrees to pay if the borrower does not. The lender may require a PLUS borrower with adverse credit to obtain a creditworthy endorser in order to receive the loan.

Extended Repayment Plan: A repayment plan available to a "new borrower" on or after October 7, 1998, with outstanding principal and interest in FFELP loans totaling more than \$30,000. An extended repayment plan may provide for standard or graduated installments over a repayment period not to exceed 25 years.

Fixed Interest: Interest rates that do not change for the life of the loan.

Forbearance: A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments. The borrower is liable for the interest that accrues on the loan during the forbearance period. Some forbearances are entitlements for eligible borrowers; others are granted at the discretion of the lender.

Grace Period: The period that begins the day after a Stafford loan borrower ceases to be enrolled at least half time at an eligible school, ends the day before the repayment period begins, and during which payments of principal are not required. For a borrower with a Stafford loan that has not yet entered repayment who also has a Supplemental Loan for Students (SLS), the grace period for the SLS is the equivalent of the grace period for the Stafford loan if the borrower requests grace on his or her SLS(s).

Graduated Repayment: A repayment schedule under which the amount of the borrower's installment payment is scheduled to change (usually by increasing in two or more increments) during the course of the repayment period. The graduated repayment schedule cannot exceed 10 years (or 25 years for borrowers eligible for an extended repayment schedule), excluding in-school, grace, deferment, or forbearance periods.

Insurance Fee: Also known as the Guarantee Fee, this is a fee charged to a borrower for a federal student loan. The originating lender deducts the fee from the loan and remits it to the guaranty agency.

Interest: The cost of borrowing money.

Interest-only Payment: A payment that covers only accrued interest owed on a loan and none of the principal balance. Interest-only payments do not prohibit borrowers from making additional or larger payments at any time.

Interest Rate: The percentage of a sum of money charged to the borrower for its use.

Late Fee: Charges that a lender may require the borrower to pay if the borrower fails to pay all or a portion of a required installment payment within 15 days after it is due. This charge may not exceed 6 cents for each dollar (6%) of each late installment.

Loan Period: The student's enrollment period for which the postsecondary institution approves a student loan to pay educational expenses.

Loan Proceeds: The amount of loan funds that have been guaranteed.

Master Promissory Note (MPN): A contract the student signs when taking out a Stafford loan or that a parent can sign when taking out a PLUS loan. The Master Promissory Note is used for the subsidized and unsubsidized Stafford loans the student may receive for the same enrollment period. If the student is attending a four-year or graduate school, the Master Promissory Note also covers subsidized and unsubsidized Stafford loans the student may receive for future enrollment periods.

Origination Fee: A loan fee charged that is paid to the federal government to offset the cost of interest, special allowance, and reinsurance payments by the federal government on a FFELP loan. This fee, if charged to the borrower, may be subtracted from the borrower's loan proceeds.

Prepayment: A payment received when the borrower is not required to make either principal or interest payments, when a borrower is required to make interest payments but previously authorized the lender to capitalize accruing interest, or when the borrower makes a payment that is greater than the amount of the borrower's regular installment or the amount due.

Principal: The actual amount borrowed.

Private Loans: Private loans provide supplemental funding when other financial aid does not cover costs. Banks or other financial institutions and schools typically offer these loans (not sponsored by government agencies) to parents and students.

Promissory Note: A legally binding agreement the borrower signs to obtain a loan under the FFELP, in which the borrower promises to repay the loan, with interest, in periodic installments. The agreement also includes information about any grace period, deferment, or cancellation provisions and the student's rights and responsibilities with respect to the loan.

Repayment Period: The period during which payments of principal and interest are required. The repayment period follows any applicable in-school or grace period and excludes any period of authorized deferment or forbearance.

Repayment Schedule: The legal addendum to the Promissory Note stating the terms of loan repayment and fulfilling disclosure requirements. The Repayment Schedule is a plan that indicates the total principal and interest due, an installment payment amount, and the number of installments required to pay the loan in full. The Repayment Schedule also contains the interest rate for the loan(s) included on the schedule, the due date of the first and subsequent installments, and the frequency of installments.

Servicer: Private companies that many postsecondary institutions, lenders, guaranty agencies, and secondary markets contract with to handle student loan processing.

Appendix B

Bibliography of Selected Loan Calculators and Loan Comparison Tools

Annual Percentage Rate Calculation Program (APR)

Source: www.occ.treas.gov/aprwin.htm

Abstract: The Annual Percentage Rate Calculation calculator is provided by the Office of the Comptroller of the Currency to verify annual percentage rates that are provided by lenders.

Education Loan Comparison

Source: www.petersons.com/finaid/edloancompare.asp

Abstract: This spreadsheet allows the borrower to compare competitive information on various loans offered by different lenders. The categories for the comparison include: terms and conditions, repayment evaluation, borrower benefits, and loan servicing.

“Financial Metrics Life” Spreadsheet Tools

Source: <http://www.solutionmatrix.com/business-case-tools.html#Free>

Abstract: Free spreadsheet and PowerPoint tools that enable the user to calculate Net Present Value (NPV) and the Internal Rate of Return (IRR) on loans from different lenders. These are standard tools that are used in the financial industry to calculate the time value of money and are used in comparing different loans. Lending institutions use NPV to evaluate the terms of a loan. The IRR is used by student loan providers to evaluate and compare different borrower benefit programs. The lower the IRR, the lower the cost to the borrower. Microsoft Excel also has a NPV and IRR calculator that several loan providers use to compare different borrower benefit programs. [NOTE: The level of detail given by this calculator may result in lengthy spreadsheets and may be more elaborate and time consuming than the aid administrator needs.]

Loan Analyzer

Source: www.finaid.org/calculators/loananalyzer.phtml

Abstract: The emergence of many types and forms of borrower benefit programs has made it difficult for aid administrators and families to compare student loans offered by different lenders. The “Loan Analyzer” attempts to distill a number of the characteristics (terms/benefits) of a loan into a single number referred to as the K-Factor. The K-Factor enables one to compare different loans with different borrower benefits. The lower the K-Factor, the lower the cost of the loan. The single factor is the number of payments required to pay off the loan.

Loan Discount Calculator

Source: <http://www.finaid.org/calculators/loandiscounts.phtml>

Abstract: The “Loan Discount Calculator” calculates the savings to the borrower for participating in the various discount programs. Types of discounts and incentives in the calculator include: reduction of fees, interest rate reductions or principal reductions at different time intervals.

Additional Resources

“Student Loan Buying Guide”

Source: <http://www.greentreegazette.com/>

Abstract: The Greentree Gazette publishes a “Buying Guide” several times a year to maintain updated information on the loan programs. The guide highlights borrower benefits offered by different lenders as well as trends in the student loan industry. Different loan programs, including Stafford, PLUS, Consolidation, and private loans, are highlighted in specific issues.



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