



How to Develop an Institutional loan Program

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Panel Members



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Overview – Range of Options



- 1) Establish an arm's length 3rd party lender list
- 2) Establish a customized lender program
- 3) Establish an "Institutional Loan" program

1) 3rd Party Lender



- Minimal effort required to establish
- Limited ability to manage:
 - Acceptance rates
 - Benefits
 - Interest rates
- Examples of lenders:
 - Credit unions (perhaps affiliated with the school)
 - Financial institutions (Wells Fargo, Discover...)
 - Specialty lenders (SoFi, Laurel Road, ...)

Compliance Considerations



- Development of a preferred vendor list
 - Vetting process
 - Regulatory requirements
- Understanding the lender perspective
 - Underwriting criteria
 - Co-signer requirement
 - Academic progress
 - Borrower benefits
 - Interest rate
 - Repayment options
- Application & Funding process
 - Electronic student borrower portal
 - Disbursement of funds

2) Customized Program



- Two basic structures:
 - A third party is the lender of record
 - The school is the “lender”
 - School holds the loan
 - School funds the loan through an endowment or other source
 - A third party funds (or acquires) the loan

Customized Program



- Third party is responsible for:
 - Origination
 - Licensing
 - Program development
 - Promissory note/Installment agreement terms
- Program may have limited options for school to modify including:
 - Acceptance threshold
 - Interest rate
- Funding could be a mix of school and lender
 - Cash advance supplemented by institutional match
 - School holds or third party holds (funds/purchases) after disbursement

Lender Perspective



- Key program variables
- Available customization
- Disbursement of funds
- Tracking performance
- Cost of the program (students and institution)

Lender Perspective



Lender 1: Large fund geared toward financing Medical Doctor Education.

- Average Loan Amount: \$150,000
- Borrower Average Age: 27
- Field of Study: Pre-Med
- FICO Floor: 720
- Interest Rate: Libor + .25
- Repayment Rate: 93%

Lender 2: Non-Profit University with large online presence.

- Average Loan Amount: \$5,500
- Borrower Average Age: 22
- Field of Study: Business Admin
- FICO Floor: 600
- Interest Rate: 8%
- Repayment Rate: 42%

Institutional Program



- School assumes responsibility for all program requirements and source of funds
 - Ideal if there is an existing endowment or benefactor
 - Requires involvement of General Counsel
- Provides ultimate flexibility
- Similar to existing institutional programs

Institutional Perspective



- The University of Wisconsin-Madison has approximately \$40M in institutional loan funds used for both short term and long term lending to students
 - Short term loans 0% interest, due in 90 days or less. Laws carve out of rescission (from 3 days), etc
 - Long term - tend to mimic Perkins except for cancellations
- Funds have been established from donations or general revenue
 - How / when to honor donor intent (when to go legal or respect alumni's situation)
 - Spirit - who gets what funds
- The Development Office generally handles the donations and will establish the loan funds based on the request from the donor
 - Suggestion - hire a development officer to liaison with Financial Aid
- Cancel for disability or need a co-signer?
- The Legal Office is also consulted when needed, when establishing new funds.
 - Be wary of crazy ideas (example 6% of income - What is income? How long will this take to repay?)

Institutional Perspective



UNIVERSITY OF WISCONSIN-MADISON
NIELSEN Promissory Note
STUDENT OBLIGATION

I, _____, hereinafter referred to as "I or the Borrower", and any guarantors, endorsers, sureties, or co-makers

hereto, promise to pay to the Board of Regents of the University of Wisconsin System, operating as the University of Wisconsin-Madison (hereinafter referred to as the "Lending Institution") \$3,600.00 advanced to me for the academic year 2017-2018, with interest at the ANNUAL PERCENTAGE RATE OF (5%) FIVE PERCENT per year.

I further agree that these loan proceeds will be used only to further my education while a registered student at the University of Wisconsin-Madison.

Promise to Pay: I promise to pay the Lending Institution, or a subsequent holder of this Note, all sums disbursed as education loans under the terms of this Note, plus interest and other fees which may become due as provided in this Note. I understand that multiple education loans may be made to me under this Note. I understand that by accepting any disbursements issued at any time under this Note, I agree to repay all education loans made to me by the Lending Institution. I understand that each loan is separately enforceable based on a true and exact copy of this Note. I understand that I may cancel or reduce the amount of any loan by not accepting or by returning all or a portion of any disbursement that is issued. If I do not make any payment on any education loan under this Note when it is due, I promise to pay all collection costs, including attorney fees, court costs, and other fees. I will not sign this Note before reading the entire Note and my signature, electronic or otherwise, certifies that I have read, understand, and agree to the terms and conditions of this Note.

Signature Date

Permanent Address

This loan requires a co-signer: If the Borrower is currently under eighteen years old. After e-signing, please print a copy of this promissory note, forward to your co-signer for signature, then return completed document to: Bursar's Office, University of Wisconsin-Madison, 333 East Campus Mall #10501, Madison, WI 53715-1383.

Signature of Co-maker Date

Permanent Address

The Borrower and the Institution further understand and agree that:

- Accumulated Loans:** If the Institution makes more than one advance to the Borrower under the NIELSEN Student Loan Program, the sum of the amounts advanced to the Borrower may be combined for purposes of repayment. Each payment made by the Borrower to the Institution shall first be applied to any outstanding fees, then to the interest which has accrued on the unpaid balance, and then to the principal sum of the total loan.
- Repayment**
 - Repayment of all loans, interest, costs, and applicable fees made under this Note shall be made in monthly installments, as determined by the Lending Institution over a TEN (10) year repayment period except that the Institution shall require repayment to be made in an amount equal to not less than \$40.00 per month.
 - The TEN (10) year repayment period begins NINE (9) months after the date the borrower ceases to be a half-time student at the University of Wisconsin-Madison. However, the \$40.00 per month minimum repayment requirement, if applicable, will reduce the repayment period to less than TEN (10) years. Periods of authorized deferment are not included as part of the TEN (10) year repayment period.
 - The terms and conditions of repayment shall be set forth in a separate repayment schedule to be given to the Borrower at the beginning of the repayment period. Said schedule shall be attached to and made part of this note.

3. **Interest:** Interest shall accrue from the beginning of the repayment period.

4. **Deferment:**

- Interest will not accrue and installments need not be paid –
 - While the Borrower is enrolled and in attendance as at least a half-time student at an accredited institution of higher education or at a comparable institution outside the United States.
- For a period not in excess of TEN (10) years during which the Borrower is-
 - on full-time active duty as a member of the Armed Forces of the United States (Army, Navy, Air Force, Marine Corps, or Coast Guard), or an officer on full-time active duty in the Commissioned Corps of the US Public Health Service;
 - in full-time service as a Volunteer under the Peace Corps Act;
 - a full-time volunteer under the Domestic Service Act of 1973;
 - a full-time volunteer in a tax-exempt organization performing service comparable to the service performed in the Peace Corps or under the Domestic Service Act of 1973 (ACTION agency programs); or
 - temporarily totally disabled as established by an affidavit of a qualified physician, or unable to secure employment because I am providing care required by my spouse who is so disabled.
- For a period not in excess of TWO (2) years during which time the Borrower is serving in an internship or residency which is required in order that the Borrower may receive professional recognition required to begin professional practice or service.
- During a SIX (6) month period following the expiration of any applicable deferment allowed in paragraphs 4A (1) -
- The Borrower is responsible for submitting all appropriate requests for deferment in a timely manner.

5. **Forbearance:** The Lending Institution may, upon the Borrower's application, defer or reduce any scheduled repayments for up to TEN (10) years if, in its opinion, extraordinary circumstances, such as prolonged illness, severe financial hardship, or unemployment, prevent the Borrower from making such repayments. However, interest will continue to accrue.

6. **Prepayment:** The Borrower may, at his or her option and without penalty prepay all or any part of the principal and accrued interest at any time.

7. **Late Charge:** The Lending Institution may assess a late penalty charge for failure of the Borrower to pay all or any part of an installment when it is due or upon notice, or for failure to file timely and satisfactory evidence of entitlement to deferment or cancellation of part or all of the loan, if so entitled, at the rate of 20 percent of the monthly payment not to exceed \$10 for each occurrence.

8. **Withhold Records:** It is additionally understood and agreed that the Borrower is bound in particular by the institutional regulation which reads in part: "A student's diploma shall be withheld and all request for official transcripts or information regarding his record shall be denied until either payment or satisfactory arrangement for payment of loans from student loan funds be made.

9. **Demand:** Demand of payment, presentment for payment, notice of dishonor, notice of nonpayment, and all other notices of every kind except notices required by law are hereby expressly and severally waived by the Borrower and each and every maker, co-maker, endorser, surety or guarantor, and it is understood that the holder of this Note may, without notice of any such person, and without affecting the liability of any such person, renew and/or extend this Note, accept partial payment thereon, agree not to sue a party liable hereunder, or settle or compromise the amount due or owing, it being the intention hereof that all such persons (except for those expressly released in writing by the Lending Institution) remain liable hereunder until all sums to be paid under this Note shall have been fully paid notwithstanding any act, omission or thing which might otherwise operate as a legal or equitable discharge of such person's liability hereunder.

10. **Statute of Limitations:** The Borrower, guarantors, endorsers, sureties, or co-makers of this Note hereby consent to renewals and extensions of time at or after the maturity hereof and hereby waive diligence, presentment, protest and demand and notice of every kind and (to the full extent permitted by law) the right to plead any statute of limitations as a defense to any demand hereunder and hereby agree that no failure on the part of the holder of this Note to exercise any power, right or privilege hereunder or to insist upon prompt compliance with the terms hereof, shall constitute a waiver thereof.

11. **Default-Default Acceleration:**

- a. Default shall occur when-
 - there is a default in payment as herein defined or

- the undersigned fails to observe any covenant set forth in the Note, dies, or becomes insolvent or subject to a bankruptcy, receivership, or other insolvency proceedings if that failure, act or occurrence materially impairs the ability of the undersigned to pay the amounts due under this note.
 - A default in payment means the failure to pay in full the scheduled repayment of any installment on or before the scheduled due date.
 - Upon default, the entire unpaid balance of the Note, plus interest and all costs necessary to collect the debt shall at the option of the Lending Institution, without demand and/or notice, become immediately due and payable in full.
12. **Persons Bound:** If the undersigned are more than one, all promises, obligations, pledges, authorizations, waivers, and liabilities under this Note shall be joint and several; and any use of the singular herein may also refer to the plural and vice versa.
13. **Credit Bureaus:** The Lending Institution may disclose the Borrower's loan(s) and any other relevant information to credit bureaus. If the Borrower is more than 60 days past due in making a scheduled repayment, the Lending Institution will disclose the Borrower's delinquent status, and any other relevant information to credit bureaus.
14. **Death or Disability:** In the event of the Borrower's total and permanent disability or death, the unpaid indebtedness remaining on the Note shall be cancelled.
15. **Kall Interview:** The Borrower agrees to complete an exit interview prior to completing or terminating full or part-time student status at the University of Wisconsin-Madison.
16. **Authorization:** The Borrower authorizes the Lending Institution and its respective agents and contractors to contact the Borrower and any all co-makers of this Note regarding all loan requests, loan(s) made, and/or repayment of loan(s), at the current or any future contact telephone number or other wireless device provided by the Borrower either directly or using automated telephone dialing equipment or artificial or pre-recorded voice or text messages.
17. **General:** The Borrower will promptly inform the Bursar's Office of the Lending Institution at the address below of any changes in name or address after he or she ceases to be a half-time student at the University of Wisconsin-Madison.

Mail a remittance payable to the University of Wisconsin to this address:
University of Wisconsin-Madison
Bursar's Office—Student Loans
333 East Campus Mall #10501
Madison WI 53715-1383

Servicer Perspective



- Management of the Repayment Process
 - Web-based tools for easy borrower access to account information
 - Customer service options
 - Compliance management plan
 - Reporting and program management
 - Early stage delinquency solution that fits your borrowers
 - Flexibility to support program modifications

Thank You

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