

ECSI



Developing, Maintaining, and Disbursing Institutional Loan Programs

Presented by:

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October 22, 2019

Why create an institutional loan fund?

- Students need more financial assistance
- Students may not be eligible for other funding
- Schools maintain control of the fund
- May need a replacement for the loss of Perkins funds



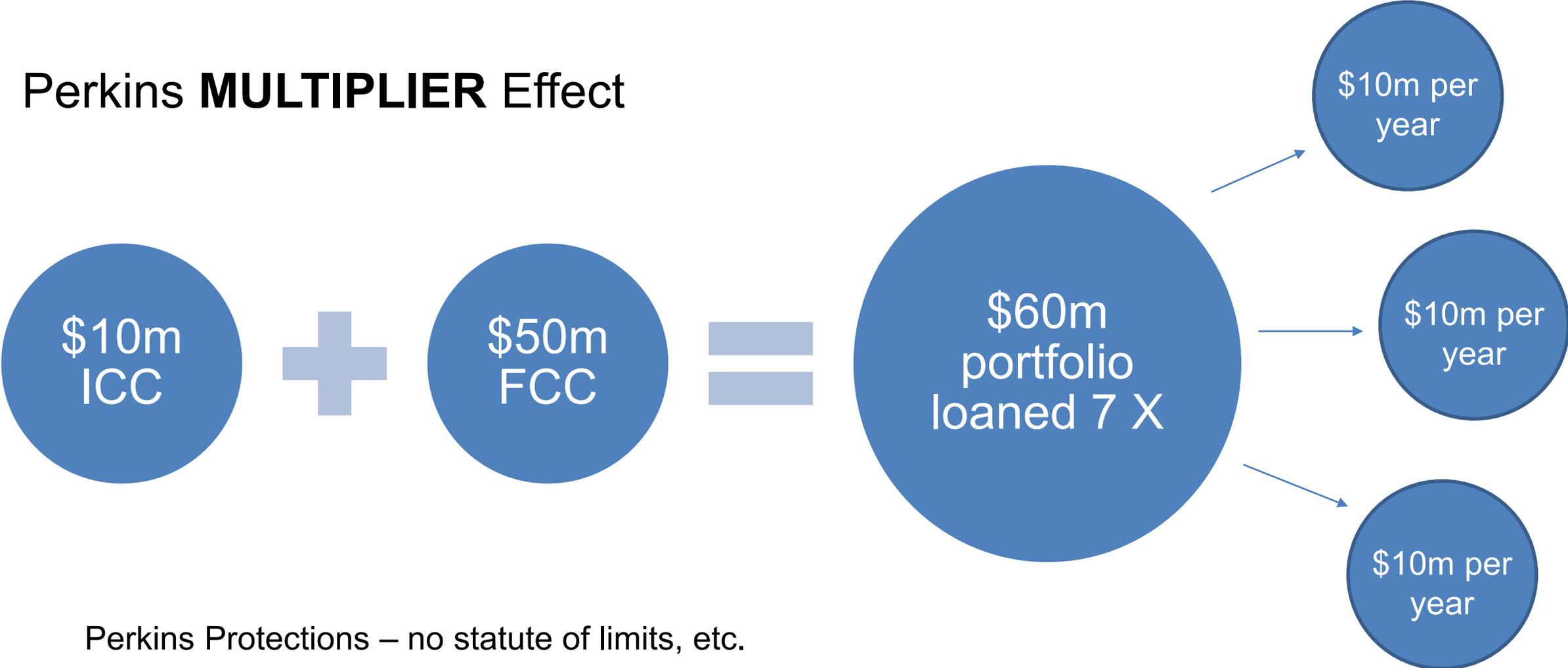
Where does the money come from?

- Institutional Monies/Foundation Funds
- Donors
- ICC from Perkins
- Other? It's time to think outside the box! (Third Party arrangement?)



Federal Government Perkins

Perkins **MULTIPLIER** Effect

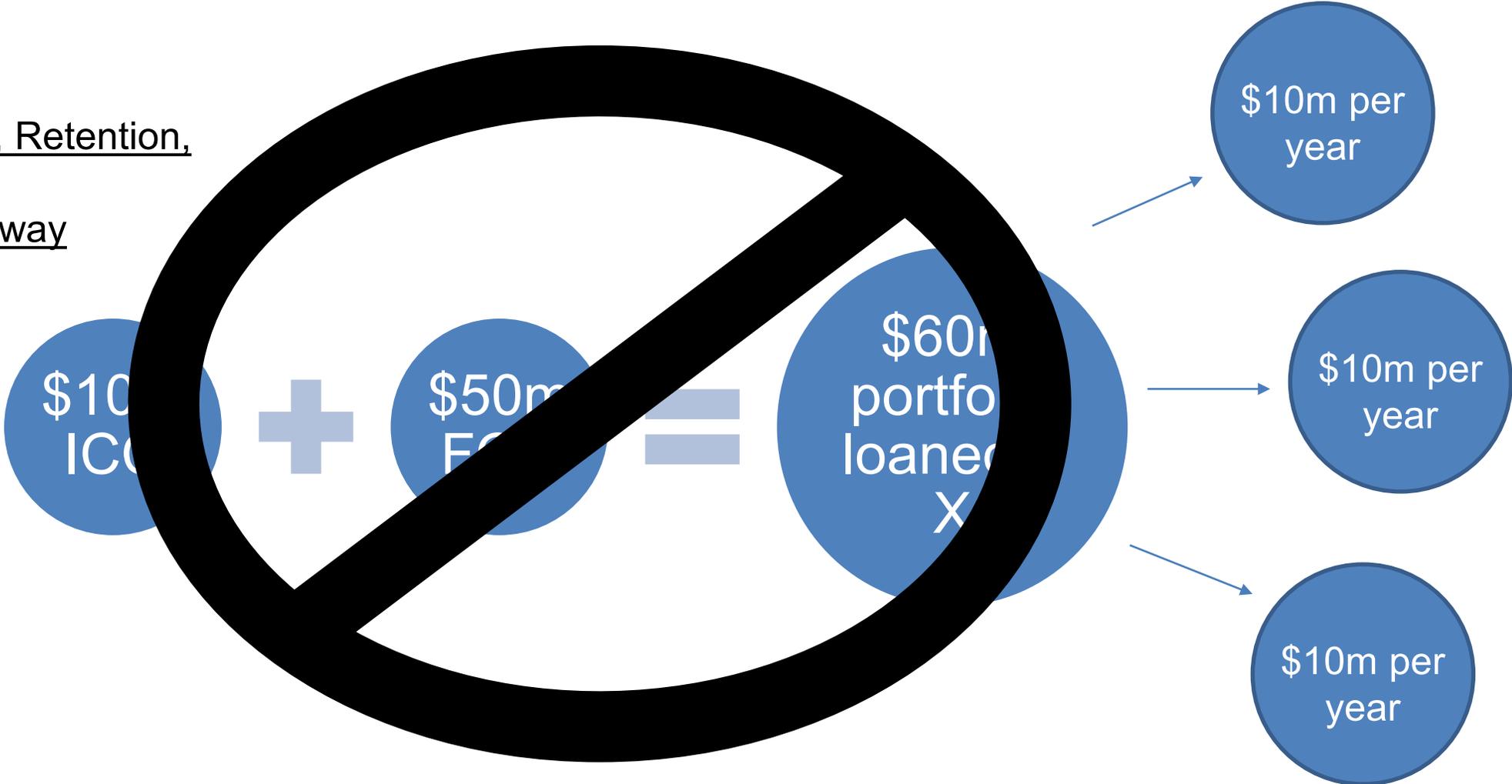


Perkins Protections – no statute of limits, etc.

Federal Government Perkins

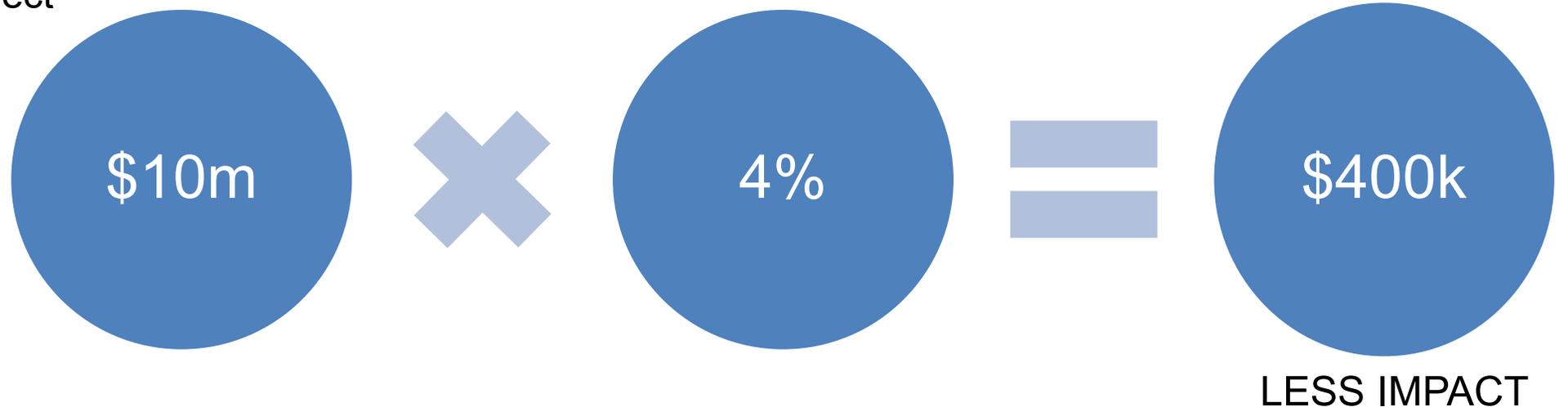
Sunset

Perkins ARC (Access, Retention, Completion)
loan initiative is underway



School/Institutional

- Provides ultimate flexibility
- What is your funding philosophy ?
- Targeted population?
- Suggest mimicking existing institutional (or Perkins) programs for administrative and system ease
- No multiplier effect



Perkins Model for Institutional Loans

Perkins MPN

Exit/Entrance
Counseling

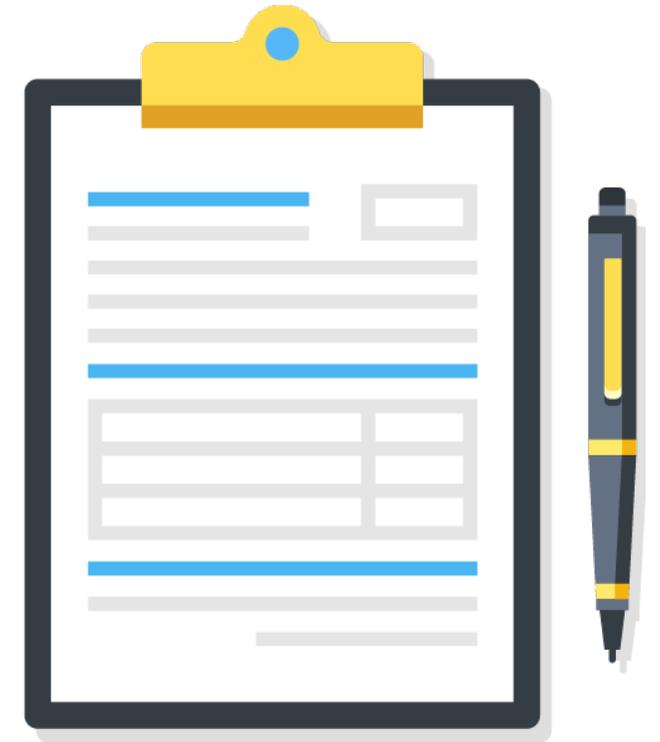
Grace Period

Interest Rate
& Repayment

Other, School
Specific
Requirements

Promissory Notes

- Heartland ECSI Promissory Note Sample provided
- The promissory note also modeled after the Perkins
 - 10 year repayment plan
 - options of deferments/no service cancellations
 - No Co-borrower
 - Credit Reporting?
 - Interest rate (whatever deemed appropriate)
 - Late fees
 - Collection Fees*
- If utilized the note should be Vetted through school's Legal counsel



Important Language to Include

I understand and accept that if I fail to pay my student account bill or any monies due and owing {Institution Name} by the scheduled due date, and fail to make acceptable payment arrangements to bring my account current, {Institution Name} may refer my delinquent account to a collection agency. I further understand that I am responsible for paying the collection agency fee which may be based on a percentage at a maximum of {Institution maximum percentage} percent of my delinquent account, together with all costs and expenses, including reasonable attorney's fees, necessary for the collection of my delinquent account.

Risks Associated with Collection Costs

- Not federal loans - regulations vary by state

Solution?

- Do not charge collection costs
- Increase interest rate by a small amount (.5% - .75%)
- School collects the same amount without the risk



Sample Prom Notes

Section A: Borrower Section

1. Name(last, first, middle initial) and Permanent address (street, city, state, zip code)

2. Social Security Number

3. Date of Birth (mm/dd/yyyy)

4. Home Area Code/Telephone Number (

5. Driver's License(list state abbreviation first)

Section B: School Section

6. School Name & Address

7. Annual Interest Rate

TERMS AND CONDITIONS

1. PROMISE TO PAY - For the value received hereunder, I, the undersigned, promise to pay (the "School") or its order, the principal sum of \$_____ plus interest and other fees which may become due as provided in this Note (each and every such sum, interest and fee being collectively referred to as the "Loan"). I understand that by accepting any disbursements issued at any time under this Note I am promising to repay the Loan in accordance with the terms of this Note. I understand that I may cancel or reduce, as the case may be, the amount of this Loan by not accepting or by returning within 5 business days of receipt all or a portion of any disbursement issued to me. If I do not make any payment on the Loan as and when required under this Note, I also promise to pay all reasonable collection costs that the School incurs in connection with any effort to collect such payment, including, without limitation, attorney fees, court costs and other fees. I understand that the School will report the amount of my installment payments, along with the amount of this loan to at least one national credit bureau. I ACKNOWLEDGE THAT I HAVE READ ALL OF THE TERMS AND CONDITIONS OF THIS NOTE PRIOR TO SIGNING THIS NOTE. This Loan has been made to me without security or endorsement. My signature certifies I have read, understand and agree to the terms and conditions of this Note.

2. REPAYMENT - I agree and acknowledge that I am obligated to repay the principal and the interest that accrues on my Loan to the School over a period beginning 6 months after I cease to be a student at the School or a comparable institution of higher education and ending 10 years later (the "Repayment Period"), unless I request in writing that my repayment period begin sooner. I understand that the School may report the amount of my installment payments, along with the amount of this Loan, to one or more national credit bureaus. Interest on this Loan shall accrue from the beginning of the Repayment Period. I further understand that my Repayment Period may (i) be shorter than 10 years due to the minimum monthly payments that I am required to make pursuant to Section 7 of this Note, or (ii) may be extended due to deferment or forbearance as provided for in Section 9 and 10 of this Note. I agree to make my installment payments in equal monthly installments as determined, in accordance Section 7 of this Note, by the School. **3. LATE CHARGES** - I acknowledge that the School may impose a late charge not to exceed 20% of my monthly payment if I do not make a scheduled payment when due or if I fail to submit to the School within 15 days of any scheduled monthly payment date a properly documented request, as described below, for any of the forbearance or deferment benefits. I agree that the School may add the late charges to my principal the day after the scheduled payment was due or include it with the next scheduled payment after I have received notice of the charge, provided that such notice is sent before the next installment is due.

4. FORBEARANCE OR DEFERMENT - I may apply for forbearance or deferment of my Loan in accordance with Sections 9 and 10 of this Note. During a duly authorized forbearance period, I understand that payments of principal and interest, or principal only, will be postponed or reduced but that INTEREST WILL CONTINUE TO ACCRUE WHILE MY LOAN IS IN FORBEARANCE. During a duly authorized deferment period, I understand that I will not be required to make scheduled installment payments on my Loan. I understand that I am responsible for submitting the appropriate requests on time and that I may lose my benefits if I fail to file my request on time.

5. DEFAULT - I understand and acknowledge that the School may, at its option, declare my Loan to be in default if I fail to make scheduled payments for at least 270 consecutive calendar days. I understand that the full remaining loan amount, including late payment penalties and/or other fees and charges will become due and payable immediately upon default. I am responsible for paying all collection fees and costs to include court cost and attorney fees, while this loan is in default and is not eligible for a deferment or forbearance. I understand that the school reserves the right to report the borrowers default status to any/all national credit bureaus. I understand that I will lose my right to defer payments and my right to forbearance if I default on my Loan. Upon default, the school may accelerate the outstanding amount of my defaulted Loan. Acceleration means that the School demands immediate payment of the entire unpaid balance of the Loan, including principal, interest, late charges and collection costs. If this Note is not paid at maturity, whether by acceleration or otherwise, the School shall have all of the rights and remedies provided by any law or this Note.

6. CHANGE OF STATUS - I acknowledge and agree that I am obligated to promptly inform the School in writing of any change in my name, address, telephone number, Social Security Number or driver's license number.

7. MINIMUM MONTHLY PAYMENTS - I agree that I will make fixed monthly payments and repay the Loan in full within the Repayment Period or other applicable repayment term agreed to by the School (not including periods of deferment or forbearance) from the date the Loan enters repayment. I understand and agree that the School will determine the amount of my fixed monthly installment so as to provide for repayment in full of the Loan in accordance with the immediately preceding sentence. I understand that regardless of my Loan amount that there is a minimum payment requirement of \$50 each month and that the monthly payment will be more, if necessary, to repay the Loan in equal monthly installments within the Repayment Period. I agree that the School reserves the right to round installment payments up to the nearest \$5 increment.

8. DISCHARGES - To the fullest extent permitted by law, I agree and acknowledge that the Loan may only be discharged upon my death or total/permanent disablement, as defined under Social Security Administration provisions. Proof of such must be submitted to the School in order for the Loan to be discharged.

9. FORBEARANCE - I understand that I may request forbearance of my Loan. Forbearance is renewable at intervals of up to 12 months for periods that do not exceed 3 consecutive years. INTEREST WILL ACCRUE DURING PERIODS OF FORBEARANCE. In order to receive forbearance or any renewal thereof, I understand that I must submit a written request to the School for forbearance at least 15 days prior to the due date of my next payment date and that such letter must indicate the number of months, not to exceed 12 months, for which I am seeking forbearance and whether I am seeking forbearance of principal and interest or principal only. I understand that the School will have no duty to grant any forbearance if I do not strictly satisfy the terms of the immediately preceding sentence. If my request is received less than 15 days before the due date of my next payment, I understand that forbearance will not take effect until the next subsequent due date.

10. DEFERMENT - I understand that I may apply to the School for an In-School Deferment or an Economic Hardship Deferment, and I acknowledge and agree that the School will only grant such a deferment if it has determined, in its sole discretion, that I have met the criteria set forth below:

- A. **In-School Deferment** - I must be enrolled and attending classes at an accredited school/college as a degree-seeking student and must be enrolled in at least a half-time course of study. To apply for an In-School Deferment, I must send the School proof that I meets the terms of the In-School Deferment each term (i.e., semester, quarter, etc.).
- B. **Economic Hardship Deferment** - If I am experiencing financial difficulties, I may apply for an Economic Hardship Deferment. To apply, I must either: (i) complete and submit an Application for Economic Hardship Deferment to the School and provide all supporting documentation requested by the School; or, (ii) provide proof to the School that I have been approved for economic hardship status under the Federal Stafford loan provisions.

Economic hardship deferment is renewable at intervals of up to 12 months for periods that do not exceed 3 consecutive years. INTEREST DOES NOT ACCRUE DURING PERIODS OF DEFERMENT.

11. INCOME-BASED LOAN REPAYMENT PROGRAM - I acknowledge and agree that the Loan is not eligible for any Income-Based Loan Repayment Program.

12. PREPAYMENT - I understand that I may prepay all or any part of the principal balance of the Loan secured by this Note at any time, and from time to time, without penalty.

13. WAIVER OF JURY TRAIL; GOVERNING LAW - School and I knowingly and voluntarily waive any right to a trial by jury in any dispute based upon or arising out of this Note, and neither party shall seek to consolidate, by counterclaim or otherwise, any action in which a jury trial has been waived with any other action in which a jury trial cannot be or has not been waived. This Note is delivered in the State of Illinois and shall be governed and construed in accordance with the laws of the State of Illinois, without regard to choice of law principals. This Note embodies the entire agreement between the School and I regarding the terms of the Loan evidenced by this Note and supersedes all oral statements and prior writings relating to the Loan.

I hereby freely execute this Note as of date noted below.

Signature: _____

Date: _____

Reg Z Requirements

- Institutional Loans are private loans, subject to the requirements of Reg Z (aka Truth In Lending Act)
- Requirements consist of 3 disclosures and a self-certification form
- Required for every private education loan a school or lender provides and must contain special HEOA requirements and content
- Includes all Institutional, Health Professions, and Nursing Loans, which fall under the Federal Law's definition of a private education loan
- All three disclosures and the self-certification form can be executed electronically
- Regulation Z requires a three-day right to cancel period before funds are disbursed (read regs on how to determine three-day period)

Things to Consider



- Co-signor authentication
- Regulation Z
- Late/Collection Fees
- Co-borrowers
- Paper or online
- Interest rates
- Licensing Requirements
- Promissory Note
- Eligibility
- Institutional Policy
- Credit Scoring
- Repayment plan options
- Risk vs. Reward

Institutional Loan Configuration

- Is there a central University policy? Should there be?
- If there are multiple funds someday, do you want them all to be handled the same way, with the same or similar provisions?
- How will you “name” the individual funds? Could that naming cause issues for the school in the future?
 - Very difficult to answer. May be best to require generic naming only, to avoid future issues/concerns.
- Are they donated funds?
 - Did the donor spell out their expectations on how the loan should work?

Institutional Loan Configuration

- How will students apply for the loan?
- What are the eligibility requirements?
 - Who can receive funds? Must they be full time or at least half time?
 - How much can they receive per term/year?
- Do you wish to require a co-signer?
 - How will you qualify the co-signer?
 - Does everyone have to have a co-signer? If not, what will the policy said about when required and when not?
- Will you require an entrance interview before the money is disbursed?

Institutional Loan Configuration

- When does interest start accruing?
 - From the Disbursement Date, From Graduation or termination date, From the Repayment Date
 - How does that choice impact servicing of the fund? How does it impact the future of the fund? How does it impact the student while enrolled?
- When does repayment begin?
 - Immediately
 - Interest only payments
 - Principal and Interest Payments
 - When the student leaves school (no grace period)
 - At the end of the Grace Period

Institutional Loan Configuration

- How long is the Grace Period?
- Is the original Grace Period given in full at the end of continuous student deferment that begins before the original grace began?
- If Interest accrues from the Disbursement Date, but Repayment does not start until a later date, what is done with accrued but unpaid interest?
 - Can Interest be capitalized, or how often during enrollment must it be paid?
 - Interest is billed in monthly installment payments until paid, and then principal and interest payments begin

Institutional Loan Configuration

- What is the billing frequency of this loan (monthly or quarterly)?
- Does this loan require an Exit Interview?
- If the borrower has more than one of these loans, should the repayment schedule be prorated between all of the loans?
- Is this loan reported to the credit bureaus?
 - No
 - Yes from the disbursement date
 - Yes but only when delinquent
 - At what month delinquent?
- Will you do internal collections? Do you have the staff to handle this?
 - When would that start? What would they be allowed to do or offer delinquent borrowers?
- Will you place these loans with a collection agency?
 - How? When?

Institutional Loan Configuration

- Are late fees assessed?
 - If yes, what is the late fee (flat dollar or percent of fixed payment)?
 - If a percent of the fixed payment, is there a maximum dollar amount and what is it?
- When and how do you write uncollected loans off? Do you still consider it owed after write-off?
- How do you handle small balances or small credit balances? (Automatically write-off when below certain amount?)
- If the borrower makes a partial payment (at least 80% of what is due) under what dollar amount should be cleared? (\$10 is standard)
- At what month delinquent should the loan be included in your default report?

Institutional Loan Configuration

- Is this loan eligible for any deferments or forbearance?
- Do deferment/partial cancellations receive a post deferment grace period? (This is NOT the original grace given to student deferments if the student deferment interrupts the original grace. This is an additional post deferment grace period given if the original grace is used up)
 - If yes, how many months?
- Is this loan eligible for any partial cancellations (service cancellation)?
- Is this loan eligible for any total cancellations (For example, death, disability or write off)?

INSTITUTIONAL LOAN PROGRAMS IN ACTION

Midwestern University Case Study

- Work with Institution's Banking Partner
- Municipal Bond Issuance
- Data Analytics (NSLDS and other data)
- Low Defaults (Direct, Grad Plus, and Institutional)
- Solid Repayment History
- Assets & Liabilities Separate
- Managed via Third Party Trustee
- Alternative to Grad Plus (cap concerns)
- Offer Lower Interest Rate/No Origination Fees



University of Kentucky



Lessons Learned the Hard Way

- An HONOR loan targeting needy students from Appalachia but “...let your conscience be your guide” for repayment. We have written off more than has been paid back. No holds, late fees, legal action allowed.
- Program had a 2-year post-enrollment grace period before interest started and the principal was due in one lump sum a year, two years, three years, or four years later – depending on the size of the loan. Talk about a shocking bill and high default.
- We were recently able to work with the College to establish more reasonable (and monthly) repayment terms and they are now targeting summer aid for their upper level students required to attend year-round.
- Program that is available only to students from specific southeastern Kentucky counties.
- Under-used and the default rate is currently almost 20%.

University of Kentucky



More Lessons Learned

- Program that started out with a very large available balance and loaned primarily to non-freshman students in good standing nearing graduation. The decision was made to help keep ***out-of-state*** freshmen at UK with \$5000 a year – turns out that wasn't nearly enough to cover the balance – plus guess who drops out the most – freshmen! Default rate is almost 22%. Strategy has since changed, but not much cash to spend for now.
- Program that started this year for former UK students who need less than 20 credit hours to graduate. A special on-line degree was created for this purpose. At first, administration wanted to charge interest while in school AND capitalize that interest, plus a variable interest rate not to exceed the Direct Loan rate. Fortunately, my office was involved in the beginning and we were able to arrive at more reasonable terms – except one battle lost - the student can be less than half-time, resulting in manual exit tracking for my staff.

University of Kentucky

Keys to Success



1. All stakeholders must be involved from the beginning: Office of Philanthropy, VP for Finance, Student Financial Aid, Student Account Services (Bursar), the billing service, a student focus group (if applicable) and Admissions – ***and most importantly, your Legal Counsel***, to review the legality of the donor or foundation’s wishes and to approve any promissory note or other legal document the borrower will sign.
2. Repayment terms must be easy to understand, favorable for successful repayment, and kept simple for administrative purposes. If deferment/cancellation benefits are offered, terms must be clear to the borrower and the billing service.
3. A good working relationship between Student Financial Aid and Student Account Services is a must. SFA is instrumental in the award processing, exchanging files with the billing service, and flagging the award as ready to disburse.
4. Extra effort is needed in working with borrowers who either don’t remember this loan or don’t understand the difference as compared to their federal loans – “I consolidated all my loans!”

University of Missouri

- Started offering various institutional loan programs in the 1950s and have continued doing so
- Currently have over 200 different funds set up
- The majority are very “open” – meaning they only require the borrower to be enrolled in a general area like nursing or business
- Most of the funds come from donors – alumni, companies, and organizations.



University of Missouri

Criteria & Terms

Loan Criteria

- No co-signors or credit checks.
- Must have filed FAFSA.
- Some loan funds have different eligibility requirements – degree/major, where the student comes from, high GPA requirement, etc.

Loan Terms

- Over 90% of our funds are set up with a 5% interest rate and a 7 year repayment term (the other 10% ranges from 0-8% interest with the longest term being 10 years).
- 6 month original grace period.
- All loans are reported to the credit bureau.
- Deferments are available.
- We **ONLY** offer cancellations for death and total and permanent disability of the borrower.

Advice for Your School

- If you have the resources, require financial/credit counseling prior to lending.
- Keep your loan terms as close to the terms for Perkins or Direct Loans as possible - 6 month original grace, similar requirements for student deferment, economic hardship, unemployment, military, and forbearance.
- One, all encompassing loan would be the easiest to manage from a financial aid perspective.

QUESTIONS?

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